

John Williams'
Shadow Government Statistics
Analysis Behind and Beyond Government Economic Reporting

SPECIAL COMMENTARY NUMBER 918-B

First Estimate of Third-Quarter 2017 GDP, Economic and Financial Outlook

October 30, 2017

**Watch For Unexpected Headline Economic Weakness as
Artificially Strong Numbers Reverse, with Hurricane Boosts Beginning to Unwind**

Natural-Disaster-Scrambled Data Suggest Looming, Major Revisions

**A New Fed Chairman Will Face the Same Banking-System and
Economic Challenges that Befuddled the Yellen/Bernanke Chairmanships**

**First Estimate of Third-Quarter 2017 GDP Growth Was 2.99%
Versus 3.06% in Second-Quarter, 1.24% in First-Quarter**

**Third-Quarter 2017 Final Sales Growth (GDP Net of Inventories) Was 2.26%
Versus 2.94% in Second-Quarter, 2.70% in First-Quarter**

Headline GDP Details Did Not Make Sense in Terms of Underlying Series

**Better-Quality Economic Measures Continue to Show
No Full Recovery from the Collapse into 2009 and No Economic Expansion, with
Stagnant Real-World Activity Increasingly Indicating a Renewed, Deepening Downturn**

PLEASE NOTE: The next Regular Commentary, Friday, November 3rd, will cover October employment and unemployment, the September trade deficit and construction spending. Depending on the complexity of the unwinding of hurricane-disrupted September labor data, the Commentary could go over the weekend. If so, a brief summary document still would be posted on the 3rd.

Best wishes to all — John Williams (707) 763-5786

Today's (October 30th) *Opening Comments and Executive Summary*. The *Opening Comments* update the near-term outlook for the broad economy, while the *Executive Summary* highlights details of the “advance” or first estimate of Third-Quarter 2017 GDP.

The *Reporting Detail* (page 13) reviews the new GDP reporting in greater detail.

The *Hyperinflation Watch* reports on Third-Quarter 2017 Velocity of Money (GDP/Money Supply), and reviews current financial-market circumstances and potential Federal Reserve behavior (page 21).

The *Consumer Liquidity Watch* (page 27) has been updated.

The *Week, Month and Year Ahead* (page 37) provides background on recent *Commentaries* and previews reporting in the week ahead of October Employment and Unemployment and the September Trade Deficit and Construction Spending.

OPENING COMMENTS AND EXECUTIVE SUMMARY

Long-Range Economic Prospects Rarely Reflect Short-Term Impact of Natural Disasters. Headline economic details in the next several weeks are a good bet to provide some negative economic surprises. The big shocks could start with October employment and employment details, to be published this Friday, November 3rd. Discussed in [Commentary No. 915](#), definitional issues appeared to drive a massive misreporting of surging household survey employment in September 2017, a circumstance that should reverse itself and likely would surprise the markets, come Friday.

The headline Third-Quarter 2017 Gross Domestic Product (GDP) detail, discussed in prior [Advance Commentary No. 918-A](#) of October 27th, is expanded upon in today's (October 30th) missive, albeit with some text repeated from the “advance” *Commentary*. As previously noted, in the context of more-substantially prepared economic data series, such as the Federal Reserve's Industrial Production series (see [Commentary No. 917](#)), the headline “advance” estimate of 3.0% annualized Third-Quarter 2017 GDP real growth went far beyond its normal nonsense, suggestive of major inconsistencies between it and likely poor-quality, hurricane-disrupted subsidiary series such as Retail Sales. As reporting details stabilize, recent headline economic activity likely will face major revisions in the month or two ahead, particularly as distortions the headline September 2017 household survey employment detail and the initial estimate of third-quarter GDP activity begin to unwind.

Consider the September Industrial Production Index, which is one of the more-solid, comprehensive and carefully prepared monthly economic series. The Fed indicated that Industrial Production—accounting for more than half of the GDP—contracted at an annualized pace of 1.5% (-1.5%) in Third-Quarter 2017. The Fed also estimated that quarterly growth would have exceeded 0.5%, net of those hurricane disruptions.

September Retail Sales (Census Bureau, see [Commentary No. 916](#)) boomed, reflecting auto sales that replaced vehicles destroyed in the hurricanes. Yet, that circumstance had to draw down inventories.

Nonetheless, auto sales in third-quarter 2017 boomed at an annualized pace of 14.7%, adding 0.35% to the quarterly GDP growth, while growth in nonfarm inventories added 0.65% further to the quarterly GDP growth rate, accounting for one-third of the aggregate, headline growth of 3.0% in the GDP.

Apparently, the Bureau of Economic Analysis (BEA), which publishes the GDP, has no way of estimating the impact of the storms on quarterly growth, making no comment on same. As a result, with currently unstable reporting in series such as Retail Sales and the GDP, look for some major, near-term revisions to current estimates of headline economic growth in the month or two ahead, as better-quality numbers gel and interrelationships between the various series stabilize.

EXECUTIVE SUMMARY: Gross Domestic Product (GDP)—Third-Quarter 2017, “Advance” or First Estimate—2.99% Annualized Growth Ran Counter to Related Underlying Reporting, Anecdotal Evidence and Common Experience. The stronger-than-expected, annualized, initial real quarterly GDP third-quarter 2017 growth estimate of 2.99%, versus a gain of 3.06% in second-quarter 2017 likely was of little substance. Such was against market expectations in the range of 2.5% to 2.7%, and likely was more problematic than usual, given issues within the estimating Bureau of Economic Analysis (BEA), of not being able to estimate impact from Hurricanes Harvey and Irma, at the moment, likely limited by the “advance” detail available.

Third-Quarter 2017 GDP, Third Estimate – Growth Distribution. The first estimate of third-quarter 2017 GDP came in at 2.99%, versus 3.06% in second-quarter 2017. The annualized growth contribution from each sub-category of consumer spending, business/residential investment, trade deficit (net exports) and government spending is additive, summing in combination to the total headline change in GDP, where $1.62\% + 0.98\% + 0.41\% - 0.02\% = 2.99\%$ (see *Table 1* for further background).

Regrouped by the general nature of product sector activity, the headline third-quarter 2017 GDP gain of 2.99% encompassed a growth-rate contribution of 1.15% from the services sector, 2.49% from the goods sector and a negative contribution of 0.64% (-0.64%) from the structures sector (see *Table 1* for recent historical comparisons).

Consider that although headline third-quarter GDP growth continued to boom along at 3.0%, versus 3.1% in the second quarter, “final sales,” which is the GDP net of changes in inventories, slowed to 2.3% in third-quarter 2017, from 2.9% in second-quarter 2017.

Third-Quarter 2017 Implicit Price Deflator (IPD) and Gross National Product (GNP)/Gross Domestic Income (GDI). Details on the implicit price deflator are discussed and graphed in the *Reporting Detail* section. The initial third-quarter 2017 estimates of the GNP and GDI are not due for release until next month, also as discussed in the *Reporting Detail*.

[Table 1 follows on the next page.]

Table 1: Headline “Advance” Third-Quarter 2017 GDP Growth Distribution versus Recent Quarters

Annualized Quarterly Real Growth in Headline Gross Domestic Product Growth Contribution by Consumption and Product Sector					
	3rd-Q 2017 Advance Estimate	2nd-Q 2017	1st-Q 2017	4th-Q 2016	3rd-Q 2016
CONTRIBUTING ECONOMIC SECTOR					
Personal Consumption Expenditures					
- Goods	0.92%	1.16%	0.15%	1.03%	0.69%
- Services	0.70%	1.08%	1.17%	0.97%	1.23%
Gross Private Domestic Investment					
- Fixed Investment	0.25%	0.53%	1.27%	0.28%	0.23%
- Change in Private Inventories	0.73%	0.12%	-1.46%	1.06%	0.16%
Net Exports of Goods and Services	0.41%	0.21%	0.22%	-1.61%	0.36%
Government Consumption/Investment	-0.02%	-0.03%	-0.11%	0.03%	0.09%
GDP Annualized Real Growth	2.99%	3.06%	1.24%	1.76%	2.78%
Final Sales, GDP Less Inventories	2.26%	2.94%	2.70%	0.70%	2.62%
CONTRIBUTING PRODUCT SECTOR					
Goods	2.49%	2.10%	-0.47%	0.88%	1.39%
Services	1.15%	1.32%	0.91%	0.61%	1.39%
Structures	-0.64%	-0.36%	0.80%	0.27%	0.01%
GDP Annualized Real Growth	2.99%	3.06%	1.24%	1.76%	2.78%
Sources: Bureau of Economic Analysis (BEA), ShadowStats.					

Underlying Economic Reality. [Note: In the context of headline 2.99% headline growth for the first estimate of third-quarter 2017 GDP, effectively the same pace as the 3.06% growth seen in second-quarter 2017 GDP, the following section, largely is repeated from [Commentary No. 913](#), which covered the third estimate of second-quarter details and annual revisions. All details and graphs have been updated to reflect the latest developments and numbers (also, for background, see the Economy section of [No. 859 Special Commentary](#), and related headline issues raised in [Special Commentary No. 888](#), [Commentary No. 887](#), [Special Commentary No. 885](#), [Commentary No. 877](#), [Commentary No. 876](#) and [Commentary No. 900](#), all incorporated here by reference).

Despite the above-average headline, real annualized third-quarter 2017 GDP growth of 2.99%, versus 3.06% in second-quarter 2017 and 1.24% growth in first-quarter 2017, underlying U.S. economic activity

has continued in a deepening-to-flattening and as-yet-unrecognized “new” recession. Headline monthly reporting activity in better-quality subsidiary economic series continues to confirm that general direction (the ShadowStats contention remains that the “new” downturn is in reality just a continuation of the economic crash into 2009, from which the aggregate real-world economy never fully recovered). While the recent 2017 GDP benchmarking did show some slowing in previously-reported 2016 and 2017 growth, activity in 2014 and 2015—otherwise heavily revised to downside in series-specific benchmarkings (again, see [Commentary No. 900](#))—revised higher with the GDP benchmarking.

This remains in place despite some corrective actions and efforts promised by the Trump Administration, and with promised new policies aimed at generating economic stimulus. Assuming some eventual legislative movement in the Congress—despite the current, continuing significant political discord—and given basic economic lead times, the first major, positive impact on the economy from that now would be well after the mid-term 2018 Congressional election, likely in early-2019, at the earliest. Despite the nonsensically happy third-quarter 2017 GDP headline details, interim economic activity and even headline GDP reporting still should turn lower in the next several quarters, as increasingly has been signaled by a number of indicators (see [Commentary No. 903](#)).

Discussed back in [Commentary No. 823](#), the 2016 GDP benchmark revisions effectively were neutral in aggregate, with the business-cycle reporting “smoothed” by the BEA. The revisions were not of a nature to trigger formal immediate recognition of a “new” or double-dip recession, which likely still will be clocked from December 2014. [Commentary No. 902-B](#) offered similar comments on the 2017 benchmarking, where “formal” recession recognition of a post-fourth-quarter 2014 recession is not imminent.

Beyond the smoothing gimmicks of the 2016 benchmarking, the prior year’s 2015 GDP annual benchmark revisions coverage—in [Commentary No. 739](#)—noted that annual benchmarkings increasingly were reshaping the GDP-reporting history into a post-2007 collapse pattern of successive multiple dips. By the next “comprehensive” GDP benchmark revision in July 2018 (a restatement of activity back to 1929), honest post-2007 historical GDP reporting should be confirming a non-recovering, multiple-dip economic collapse including a “new” or ongoing downturn post-fourth-quarter 2014.

That circumstance should encompass the evolving, current downturn in broad, domestic economic activity, discussed in [No. 859 Special Commentary](#). Again, the present, unofficial “new” recession or multiple-dip downturn remains likely to be timed from December 2014, even without headline back-to-back contractions of quarterly GDP currently in place. Formal recognition of same remains pending, albeit not imminent, where consecutive quarterly GDP contractions no longer are necessary for formal recession recognition (see the opening paragraphs of [Commentary No. 823](#)).

Headline Aggregate GDP Remains Heavily Overstated versus Underlying Reality. Formal headline GDP activity continues to run well above economic reality as signaled by a number of better-quality business indicators, as reviewed here and in [No. 859 Special Commentary](#). A sampling of those indicators—plotted in this section—includes such varied series as domestic freight activity (*Graph 5*), industrial production of consumer goods (*Graph 6*), U.S. petroleum consumption (*Graph 7*), total real U.S. construction spending (*Graph 8*) and the employment-population ratio (*Graph 9*). Either the GDP reporting is wrong, or most other major economic series are wrong (see [Commentary No. 876](#) and [Commentary No. 877](#)).

While the GDP is heavily modeled, imputed, theorized and gimmicked, it also encompasses reporting from those various major economic series and private surveys, which still attempt to measure real-world activity. Flaws in the GDP inflation methodologies and simplifying reporting assumptions have created the headline post-2009 faux ongoing economic recovery and expansion.

Accordingly, the broad ShadowStats economic outlook has not changed a bit, and, again, the gist of most of following text remains along the lines as expounded upon in [No. 859](#). The details and numbers here, however, are updated for the latest headline information. In combination, these various collapsing economic indicators eventually should engender a formal recession call, irrespective of the timing of actual, if any, headline quarterly contractions in real GDP, or what may be continued political gaming of the GDP data.

Fundamental, real-world economic activity shows that the broad economy began to turn down in 2006 and 2007, plunged into 2009, entered a protracted period of stagnation thereafter—never recovering—and then began to turn down anew in late-2014, early-2015. Irrespective of the reporting gimmicks introduced in the July 2013, July 2014 and July 2016 GDP benchmark revisions—including a recent pattern of inclusion and estimation of highly-questionable data on the Affordable Care Act (ACA) and related healthcare spending—a consistent, fundamental pattern of faltering historical activity is shown in the accompanying “corrected” GDP graphs (see *Graphs 2 and 4*).

Discussed in the *Consumer Liquidity Watch*, with liquidity-strapped consumers unable to fuel sustainable growth in consumption, a full business recovery could not have taken place since 2009. A “Recovery” and renewed economic “Expansion” (see [Commentary No. 875](#) for definitions) will not be forthcoming until consumer structural income and liquidity problems are resolved, including more-normal credit functioning of the domestic banking system.

Official and Corrected GDP. Reviewed and graphed in the *Opening Comments* of [Commentary No. 876](#), the full economic “Recovery” and post-third-quarter 2011 “Expansion” indicated by headline real GDP numbers, remains an illusion. In scope, it is not supported by other major economic series. It is a statistical mirage created at least partially by using a too-low rate of inflation in deflating (removing certain inflation effects) from the GDP series. Today’s accompanying graphs also tell that story, updated for the “advance” estimate of third-quarter 2017 GDP, as well as reflecting a sampling of other elements of economic reality.

The first set of graphs (*Graphs 1 and 2*) updates the detail 1970-to-date, expressed in billions of 2009 dollars as used with the headline GDP, for the new headline detail available for third-quarter 2017. Updated for the new numbers, the graphs show official periods of recession as shaded areas, with ShadowStats-defined recessions indicated by the lighter shading in *Graph 2*, the second graph of the first set, as published initially in [2014 Hyperinflation Report—Great Economic Tumble](#).

The second set of graphs (2000-to-date) is the one that traditionally has been incorporated in the *GDP Commentaries*. *Graphs 3 and 4* show short-term detail, expressed on an index base where first-quarter 2000 = 100.0.

Shown in the first graph of each set (*Graphs 1 and 3*) of official *Headline Real GDP*, GDP activity has been reported above pre-2007 recession levels—fully recovered and in economic expansion—since third-quarter 2011, and headline GDP has shown sustained growth since (growth pauses or interruptions for

second-half 2012 and first-quarter 2014 excepted). Adjusted for GDP inflation (the implicit price deflator or IPD), the initial estimate of third-quarter 2017 GDP currently stands 14.4% above its pre-recession peak-GDP estimate of fourth-quarter 2007. Again, no other major economic indicators show recovery or expansion close to the GDP's. None of the series covered in this section or in [No. 859](#) has shown a significant recovery to pre-recession highs, let alone formal economic expansion.

In contrast, the “corrected” GDP version, in the second graph of each set (*Graphs 2 and 4*), shows first-estimate, third-quarter 2017 GDP activity still to be down by 6.6% (-6.6%) from its pre-recession peak of first-quarter 2006. Noted in [General Commentary No. 867](#), [Commentary No. 869](#) and [Commentary No. 905](#), headline Industrial Production and the related Manufacturing series have rivaled, and in the case of manufacturing, have exceeded the Great Depression in terms of the number of quarters or months of non-Expansion.

Again, the second graph in each series (*Graphs 2 and 4*) plots the *Corrected Real GDP*, adjusted for the understatement inherent in official inflation estimates (see [Public Commentary on Inflation Measurement](#)), with the deflation by the implicit price deflator (IPD) adjusted for understatement of roughly two-percentage points of annual inflation in recent years. The inflation understatement has resulted from hedonic-quality adjustments, also as discussed in the *Hyperinflation Reports*.

The pattern of economic collapse into 2009, followed by some minimal recovery, low-level stagnation and renewed contraction is seen with many series. As shown in *Graphs 5 to 9* (again also see [No. 859](#) more-extensive background), better-quality independent numbers—including some U.S. government—put the lie to the gimmicked headline reporting that has been massaged for decades by government agencies and consulting academics.

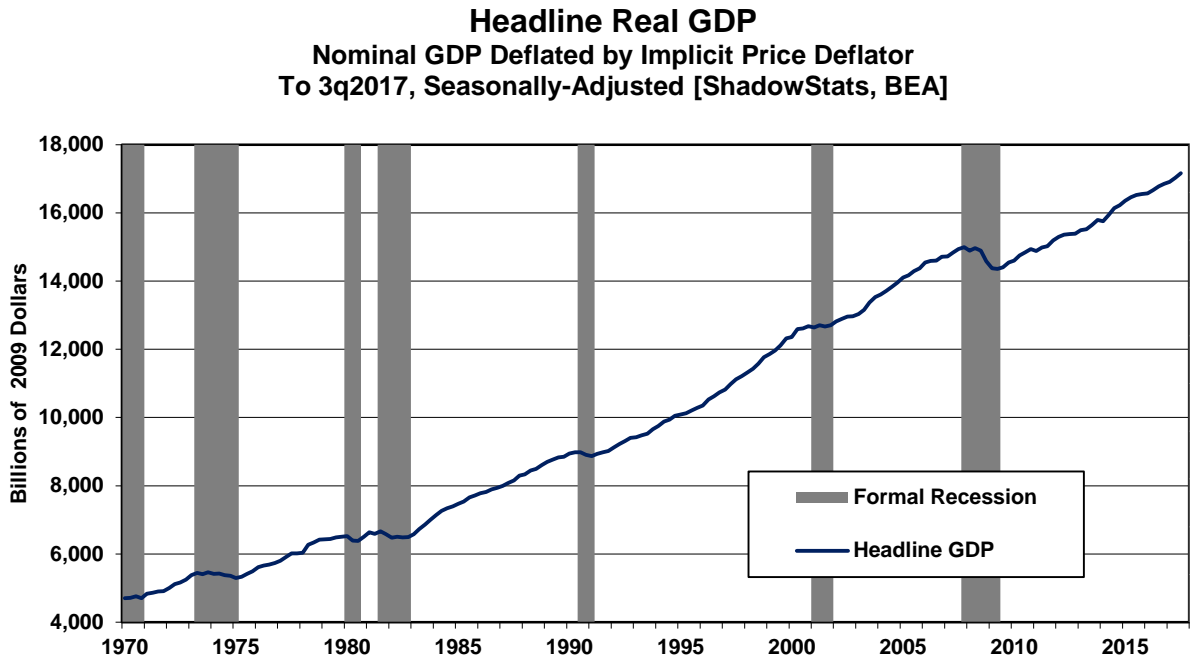
Headline GDP Reporting. The Bureau of Economic Analysis (BEA) reported October 27th, that the first or “advance” estimate of third-quarter 2017 showed an annualized 2.99% pace of real growth, versus 3.06% in second-quarter 2017 and 1.24% in first-quarter 2017. Year-to-year growth rose to 2.26% in third-quarter 2017, versus 2.21% in second-quarter 2017 and 2.00% in first-quarter 2017.

Those details are reflected in *Graphs 1 and 3*. With the initial headline detail, Third-Quarter 2017 GDP stands at 14.4% above the pre-2007-recession peak of the series, an incredible (as in not believable) pace of economic expansion not seen otherwise in other major economic reporting, as regularly discussed here.

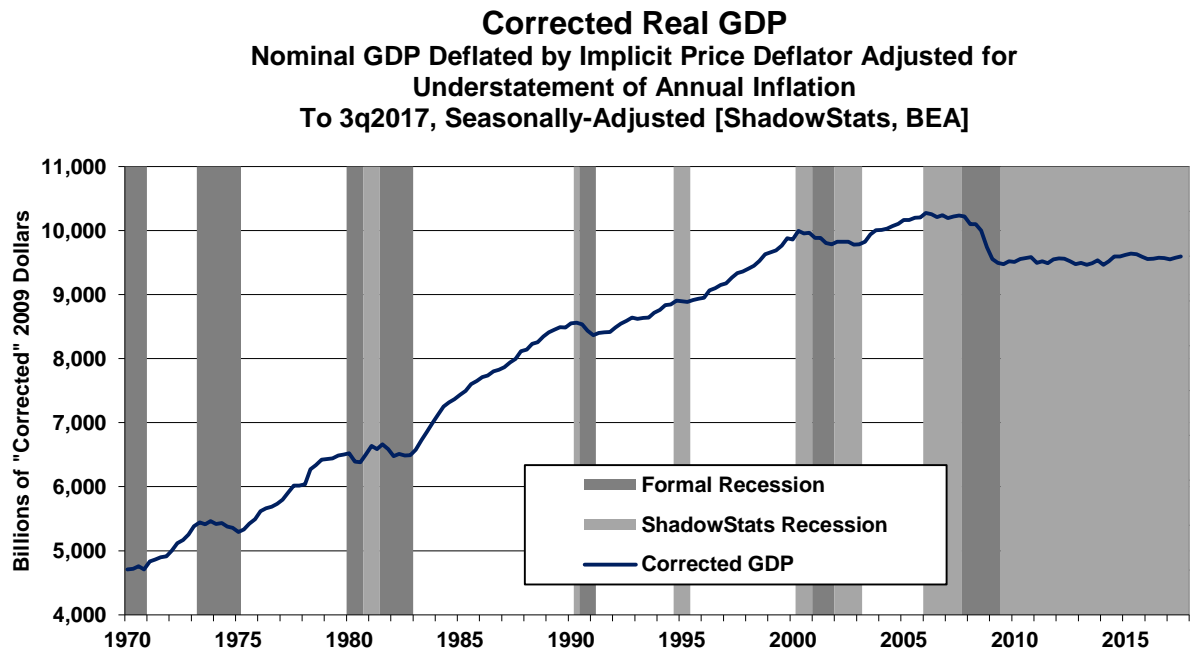
Graphs 2 and 4, reflect the ShadowStats alternative estimates of GDP growth, corrected for the understatement of annual inflation used in deflating real GDP growth (see [Commentary No. 913](#)).

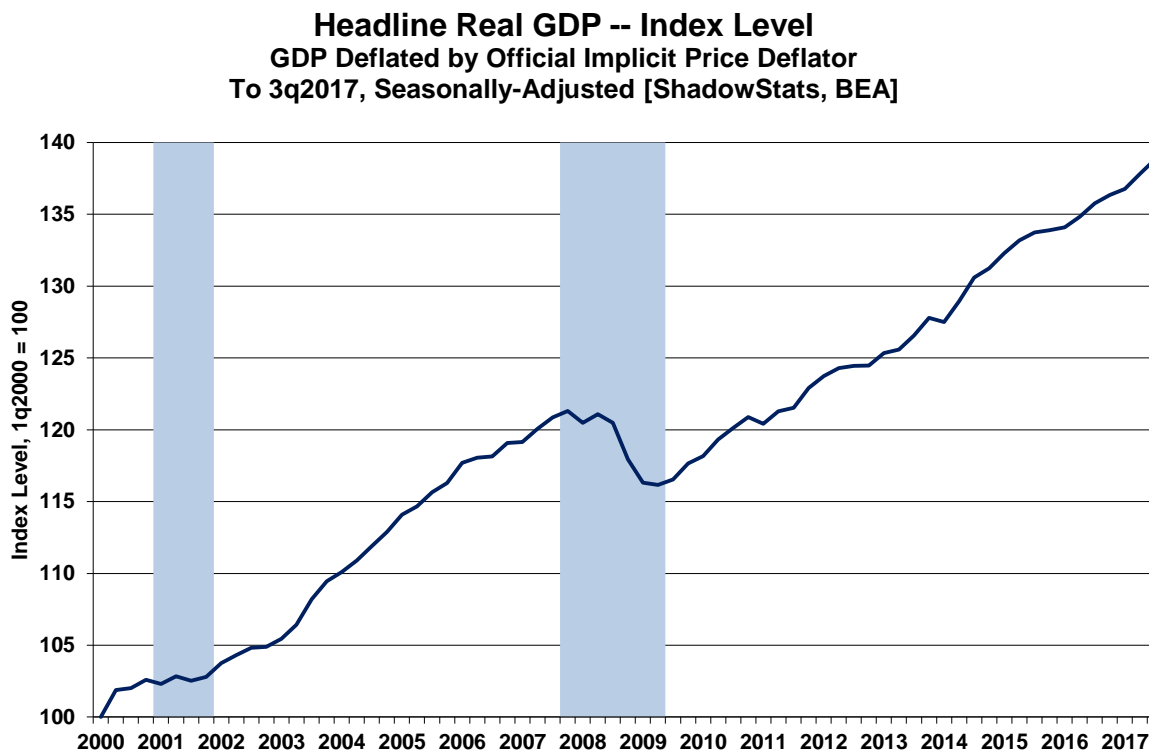
[Graphs 1 and 2 follow on the net page.]

Graph 1: Real GDP (1970 -2017), First-Estimate of Third-Quarter 2017



Graph 2: "Corrected" Real GDP (1970 -2017), First-Estimate of Third-Quarter 2017



Graph 3: Real GDP Index – Headline Real GDP through First-Estimate of Third-Quarter 2017

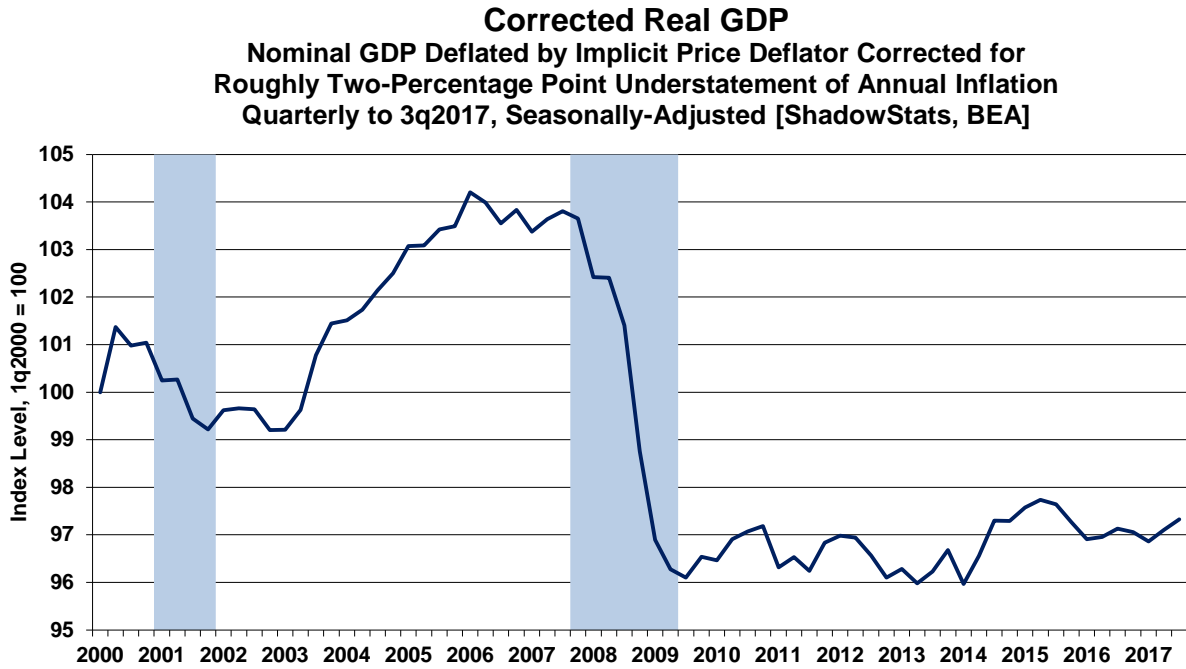
Comparative Indicators. *Graph 4* of the “corrected” GDP series is shown along with an example of the regular, comparative economic indicators (again, see [Commentary No. 913](#) and the expanded coverage in [No. 859](#)), which generally confirm the broad story from the “corrected” GDP graph that the economy never recovered from its collapse into 2009 and is either in renewed downturn or in continuing low-level stagnation, albeit some of the latter may be slightly up-trending.

The comparative *Graph 5* shows the Cass Freight Index™ measure of North American freight volume through August 2017 (see [Commentary No. 911](#)), used with the permission of Cass Information Systems, Inc. Few measures better reflect the actual flow of goods in commerce than freight activity. As a broad measure of basic domestic economic activity, the index has much more in common with the “corrected” GDP in *Graph 4*, than with the headline GDP of *Graph 3*.

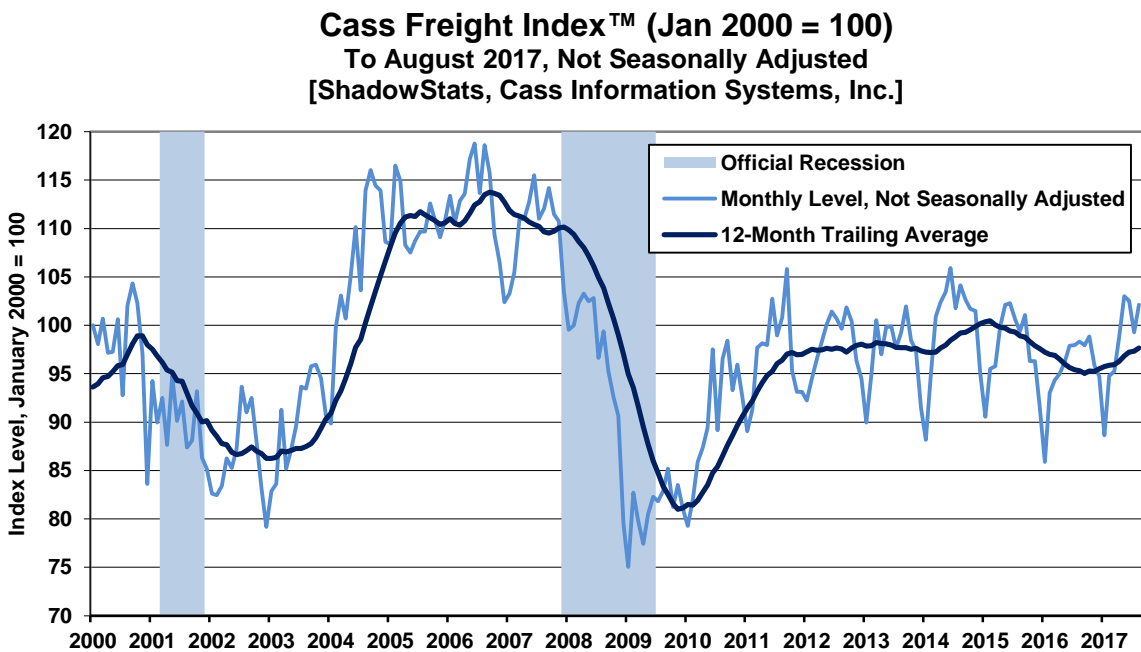
Graph 6 plots the latest headline level of activity for industrial production of consumer goods, which represents 17% of GDP. *Graph 7* of U.S. Petroleum Consumption, and *Graph 8* of inflation-adjusted total U.S. Construction Spending, which includes everything from roads and office buildings to residential construction, are among the variety of indicators that show patterns of economic collapse into 2009/2011, followed by some minimal (not full) recovery and ongoing stagnation/downturn.

Graph 9 of the employment-to-population ratio also remains a solid indicator of underlying labor conditions in the context of the broad population and long-term discouraged and displaced workers, reflected there through September 2017.

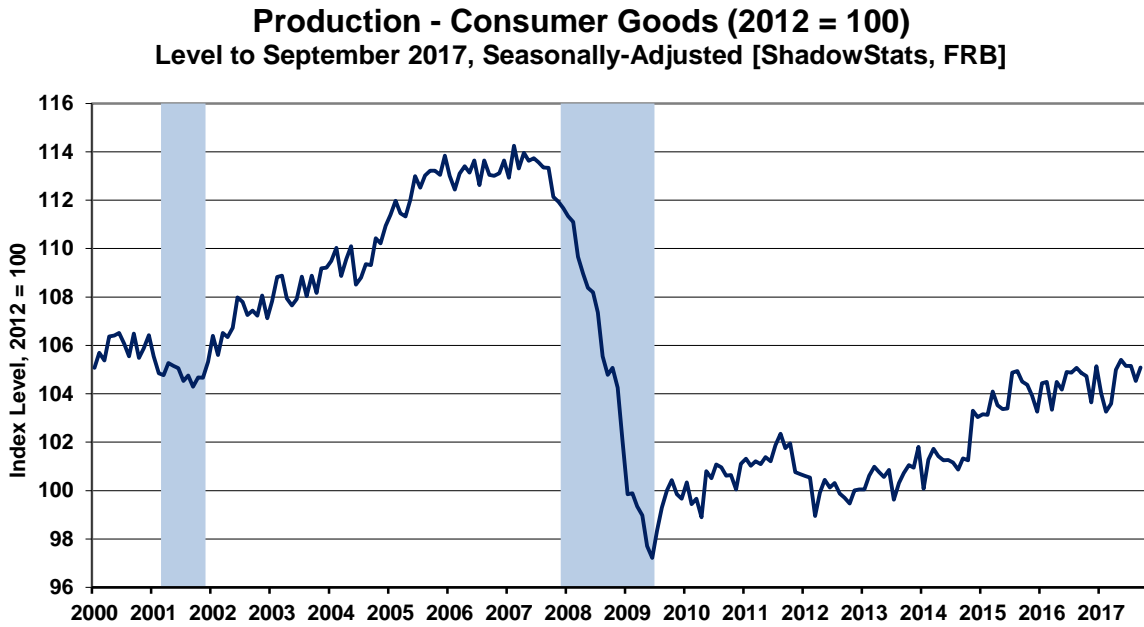
Graph 4: "Corrected" Real GDP Index (2000 - 2017), First-Estimate of Third-Quarter 2017



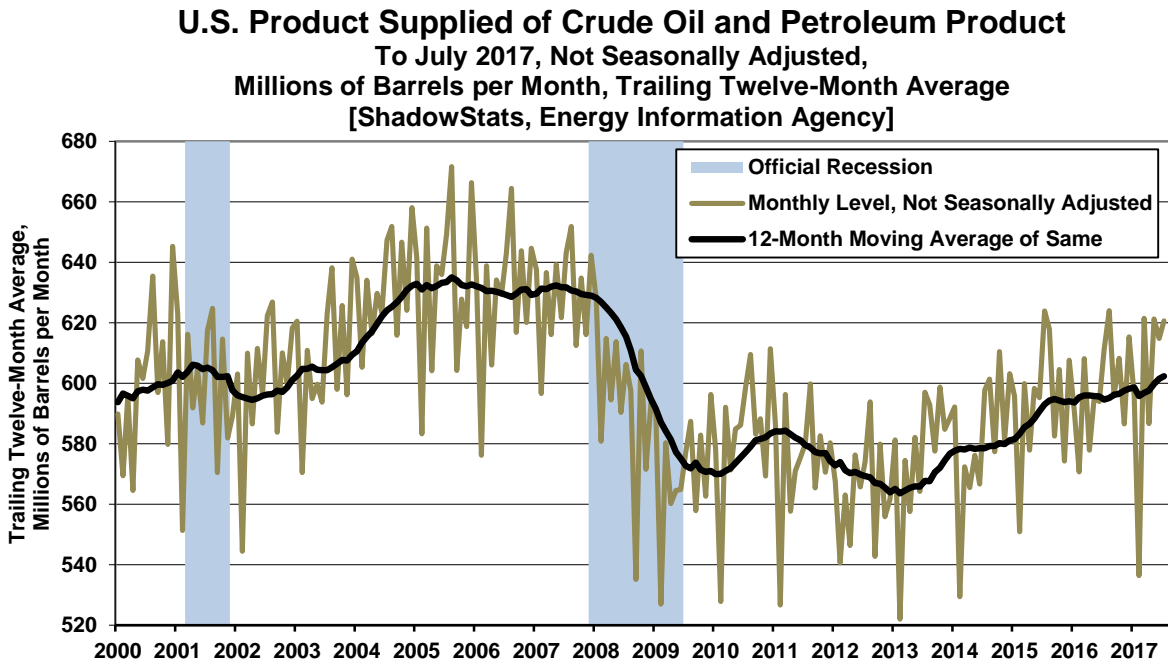
Graph 5: Cass Freight Index™ (2000 - August 2017)
 (Graph OC-1 on page 3 of [Commentary No. 911](#))



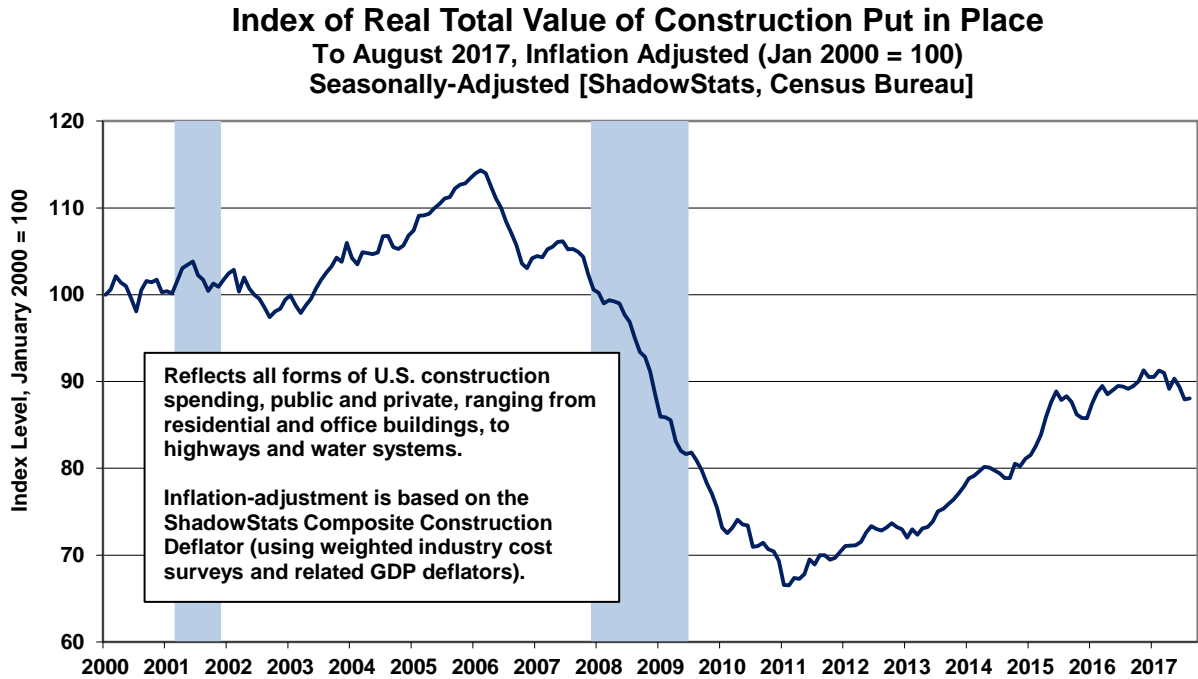
Graph 6: Industrial Production – Consumer Goods (2000 - September)
(Graph 28, page 28 [Commentary No. 917](#))



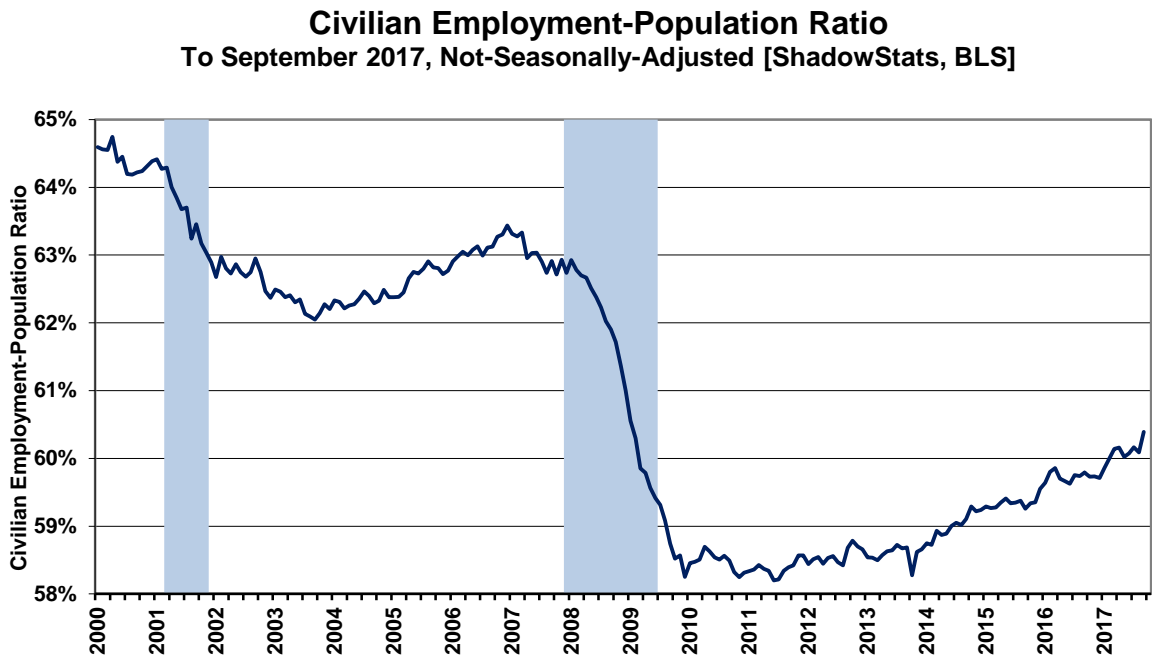
Graph 7: U.S. Petroleum Consumption (2000 – July 2017)



Graph 8: Real Total U.S. Construction Spending (2000 - 2017)
(Graph 10, page 15 [Commentary No. 914](#))



Graph 9: Civilian Employment-Population Ratio (2000-August 2017)
(Graph 3, page 6 [Commentary No. 915](#))



[Extended analysis and graphs follows in the Reporting Detail.]

REPORTING DETAIL

GROSS DOMESTIC PRODUCT—GDP (Third-Quarter 2017, “Advance” or First Estimate)

“Advance” Third-Quarter GDP Estimate Appeared Heavily Bloated from Uncertain and Volatile Underlying Detail. Discussed in the *Opening Comments and Executive Detail*, headline initial reporting of the third-quarter 2017 GDP appeared to be overstated, likely due to the lack of available, reliable detail, which eventually should delineate some impact on the headline numbers from hurricane-driven distortions.

Heavily Followed but of Extremely Poor Quality. In this most-politically-sensitive of popularly followed economic series, the GDP usually does not reflect properly or accurately the changes to the underlying economic fundamentals and measures that drive the broad economy. Again, as discussed and as reflected in the graphs of the *Executive Summary*, various separately-reported measures of real-world economic activity have shown that the general economy began to turn down in 2006 and 2007, plunged into 2009, entered a protracted period of stagnation thereafter—never recovering fully, never entering a phase of formal economic Expansion—and then began to turn down anew in late-2014. That said, the 2017 benchmark revisions reflected, revised slowing growth in 2016 into first-quarter 2017, in the context of upside revisions to 2014 and 2015, which appear far-removed from reality (see [Commentary No. 902-B](#) and [Commentary No. 900](#)).

The GDP (or the broader GNP detail headlined in earlier decades) simply remains the most worthless of the popular government economic series, in terms of determining what really is happening to U.S. business activity. The series is the most-heavily-modeled, politically-massaged and gimmicked government indicator of the economy. It has been so since at least the 1960s, and that reporting quality deteriorated anew, sharply in both the 2016 and 2017 benchmarkings (see the *Opening Comments* of [Commentary No. 902-B](#), those of [Commentary No. 823](#), and [Special Commentary No. 885](#), entitled *Numbers Games that Statistical Bureaus, Central Banks and Politicians Play*).

[Notes on GDP-Related Nomenclature and Definitions follow on the next page.]

Notes on GDP-Related Nomenclature and Definitions

For purposes of clarity and the use of simplified language in the text of the GDP analysis, here are definitions of several key terms used related to GDP reporting:

Gross Domestic Product (GDP) is the headline number and the most widely followed broad measure of U.S. economic activity. It is published quarterly by the Bureau of Economic Analysis (BEA), with two successive monthly revisions, and with an annual revision in the following July.

Gross Domestic Income (GDI) is the theoretical equivalent to the GDP, but the popular press generally does not follow it. Where GDP reflects the consumption side of the economy and GDI reflects the offsetting income side. When the series estimates do not equal each other, which almost always is the case, since the series are surveyed separately, the difference is added to or subtracted from the GDI as a “statistical discrepancy.” Although the BEA touts the GDP as the more accurate measure, the GDI is relatively free of the monthly political targeting the GDP goes through.

Gross National Product (GNP) is the broadest measure of the U.S. economy published by the BEA. Once the headline number, now it rarely is followed by the popular media. GDP is the GNP net of trade in factor income (interest and dividend payments). GNP growth usually is weaker than GDP growth for net-debtor nations. Games played with money flows between the United States and the rest of the world tend to mute that impact on the reporting of U.S. GDP growth.

Real (or Constant Dollars) means the data have been adjusted, or deflated, to reflect the effects of inflation.

Nominal (or Current Dollars) means growth or level has not been adjusted for inflation. This is the way a business normally records revenues or an individual views day-to-day income and expenses.

GDP Implicit Price Deflator (IPD) is the inflation measure used to convert GDP data from nominal to real. The adjusted numbers are based on “Chained 2009 Dollars,” as introduced with the 2013 comprehensive revisions, where 2009 is the base year for inflation. “Chained” refers to the substitution methodology, which gimmicks the reported numbers so much that the aggregate of the deflated GDP sub-series missed adding to the theoretically-equivalent deflated total GDP series by \$105.5 billion in “residual,” as of the second estimate of second-quarter 2016.

Quarterly growth, unless otherwise stated, is in terms of seasonally-adjusted, annualized quarter-to-quarter growth, i.e., the growth rate of one quarter over the prior quarter, raised to the fourth power, a compounded annual rate of growth. While some might annualize a quarterly growth rate by multiplying it by four, the BEA uses the compounding method, raising the quarterly growth rate to the fourth power. So a one percent quarterly growth rate annualizes to $1.01 \times 1.01 \times 1.01 \times 1.01 = 1.0406$ or 4.1%, instead of $4 \times 1\% = 4\%$.

Annual growth refers to the year-to-year change of the referenced period versus the same period the year before.

Gross Domestic Product (GDP). Published Friday, October 27th by the Bureau of Economic Analysis (BEA) the first or “advance” estimate of third-quarter 2017 showed a statistically-insignificant, real (inflation-adjusted), annualized, quarterly headline gain of 2.99% +/- 3.5% (95% confidence interval), which topped market expectations for 2.6% growth, plus or minus. That was against 3.06% in second-quarter 2017 and 1.24% in first-quarter 2017. Year-to-year growth rose to 2.26% in third-quarter 2017, versus 2.21% in second-quarter 2017 and 2.00% in first-quarter 2017.

Distribution of initial third-quarter 2017 GDP growth by major category is detailed in the *Executive Summary*.

Graphs 10 and 12 plot headline levels of real quarterly GDP activity, respectively showing short-term (since 2000) and long-term (since the historical onset of the quarterly GDP series in 1947) perspectives.

Shown in *Graphs 11 and 13*, headline year-to-year real GDP growth in the first estimate of third-quarter GDP was 2.26%, versus 2.21% in second-quarter 2017, 2.00% in first-quarter-2017, 1.84% in fourth-quarter 2016, 1.52% in third-quarter 2016, 1.23% in second-quarter 2016, 1.36% in first-quarter 2016, 2.02% in fourth-quarter 2015 and 2.40% in third-quarter 2015.

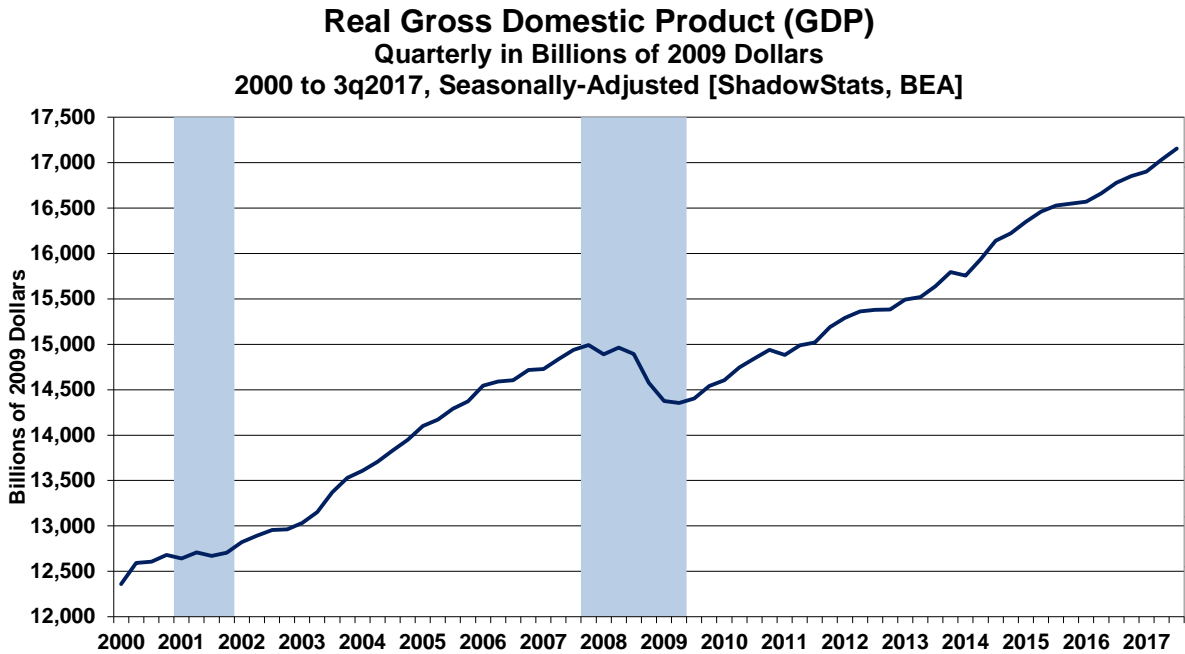
Graphs 14 and 15 respectively show the levels of annual real GDP activity, as well as annual percent change, as estimated beginning in 1929.

A sharp downtrend in annual growth is common at the onset of formal recessions. Reflected in *Graph 15*, annual-average real GDP growth in 2016 slowed to 1.49%, versus 2.86% in 2015 and versus 2.57% in 2014. The annual growth rate of 1.49% in 2016 was the slowest pace of annual growth in the post-2009 “recovery.”

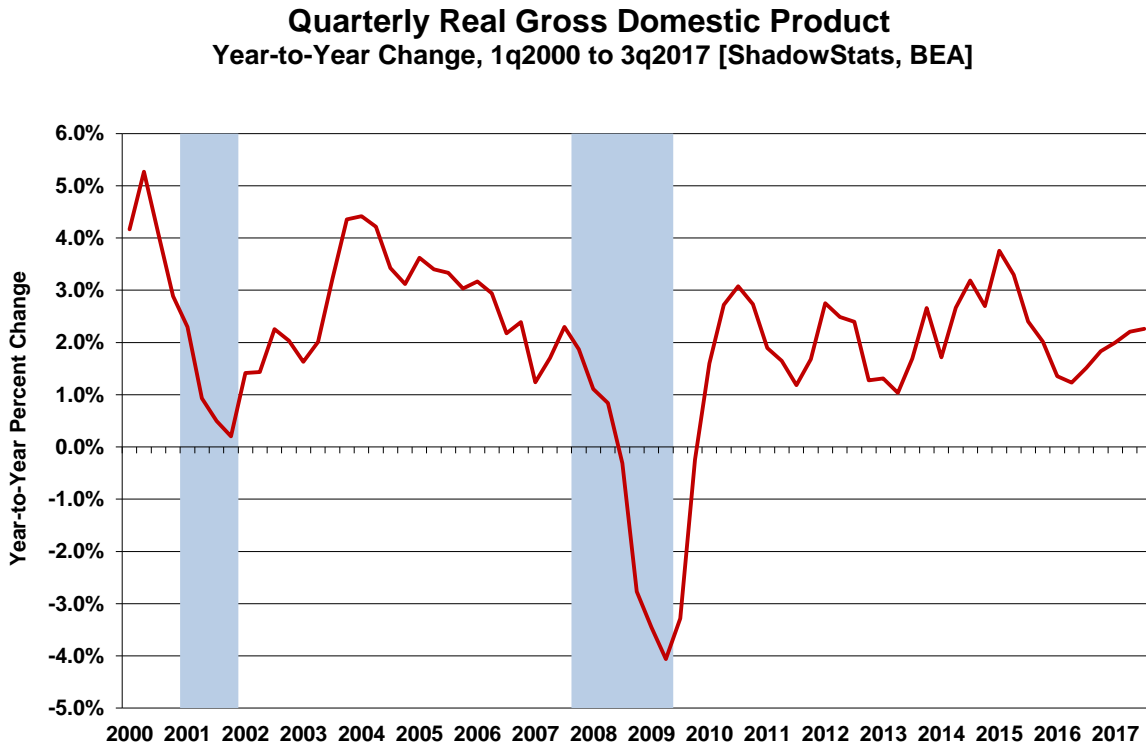
The current-cycle trough in quarterly annual change was in second-quarter 2009 (see *Graphs 11 and 13*), reflecting a year-to-year decline of 4.09% (-4.09%). That was the deepest year-to-year contraction for any quarterly GDP in the history of the series, which began with first-quarter 1947 (1948 in terms of available year-to-year detail). *Graph 11* shows the revised current year-to-year quarterly detail, from 2000-to-date, where *Graph 13* shows the same series in terms of its full quarterly, year-to-year history back to 1948. Shown in *Graph 15*, the annual decline of 2.78% (-2.78%) in 2009 was the steepest regular annual drop in economic activity since the Great Depression. The 1946 production shutdown and economic reorganization following World War II, however, resulted in an annual GDP decline of 11.58% (-11.58%), minimally narrower than the 1932 annual economic crash of 12.89% (-12.89%).

[Graphs 10 to 16 begin on the following page.]

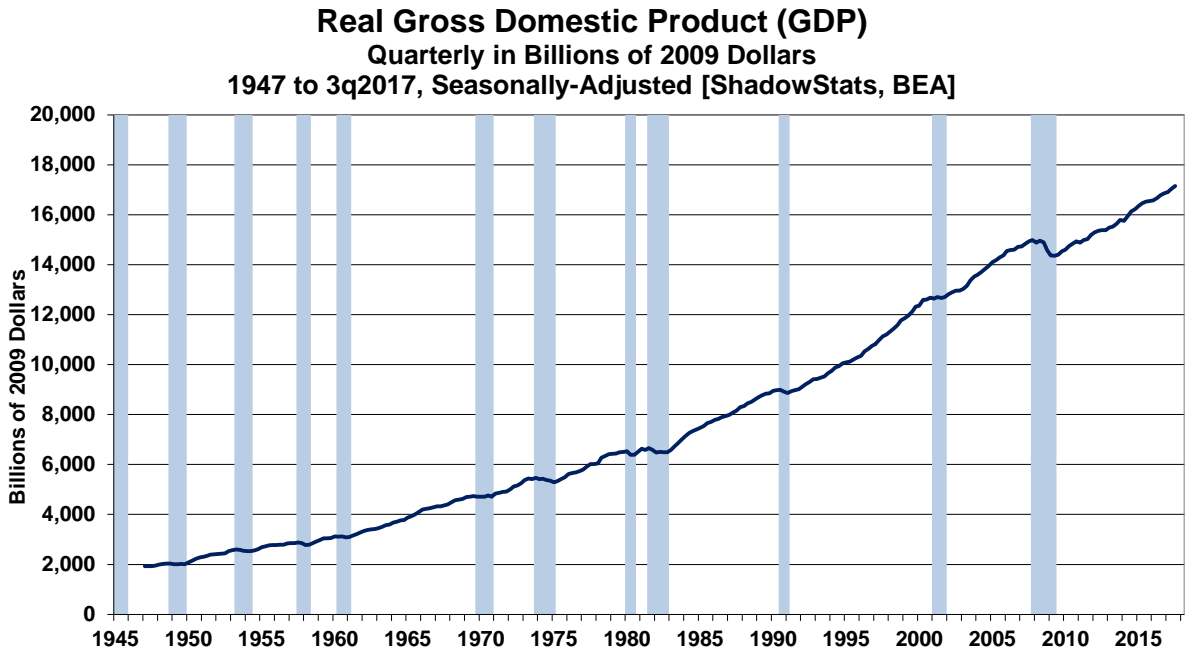
Graph 10: Quarterly GDP in Billions of 2009 Dollars (2000 to 2017), First-Estimate of Third-Quarter 2017



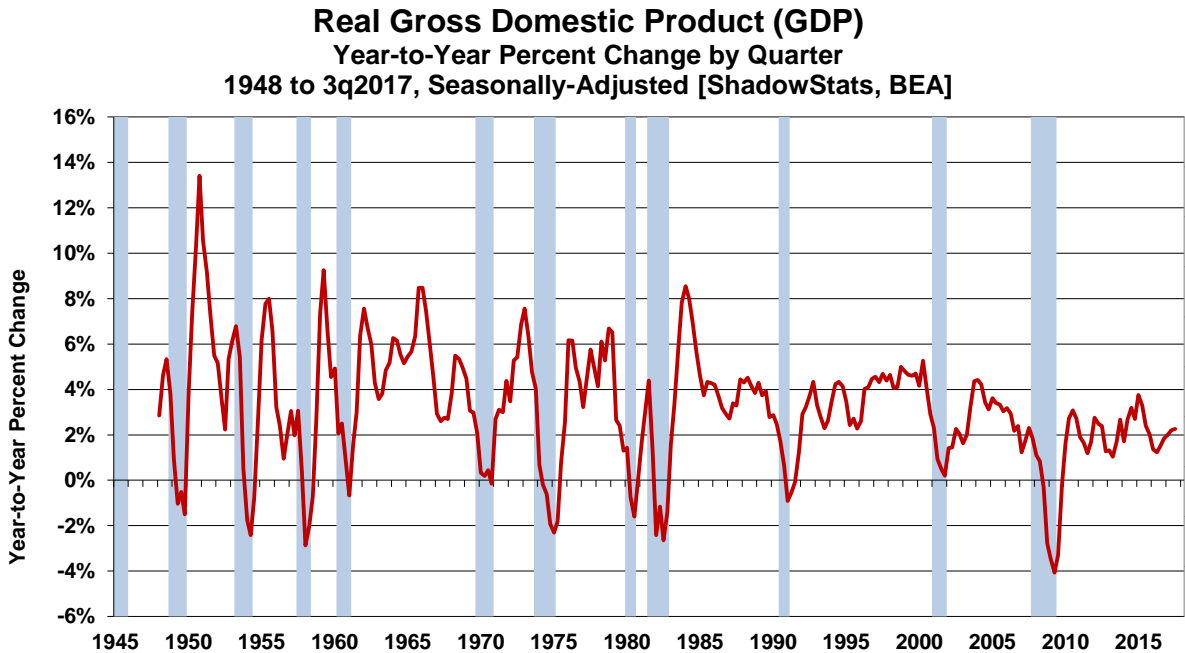
Graph 11: Quarterly GDP Real Year-to-Year Change (2000 to 2017), First-Estimate of Third-Quarter 2017



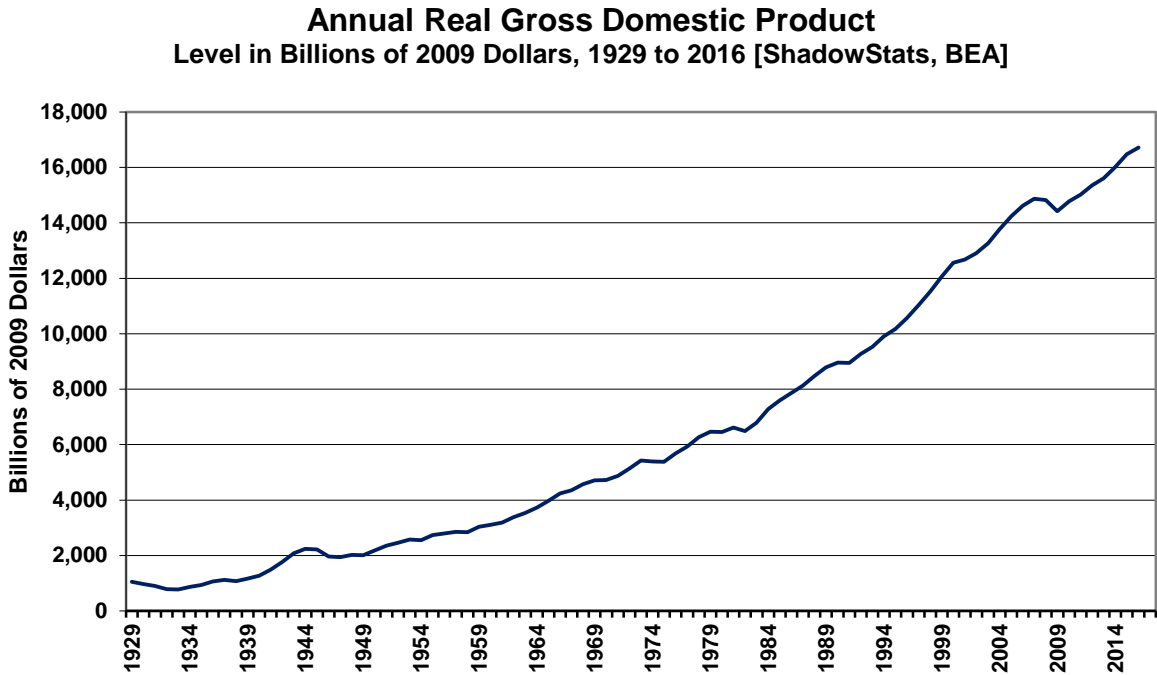
Graph 12: Quarterly GDP in Billions of 2009 Dollars (1947-2017), First-Estimate of Third-Quarter 2017



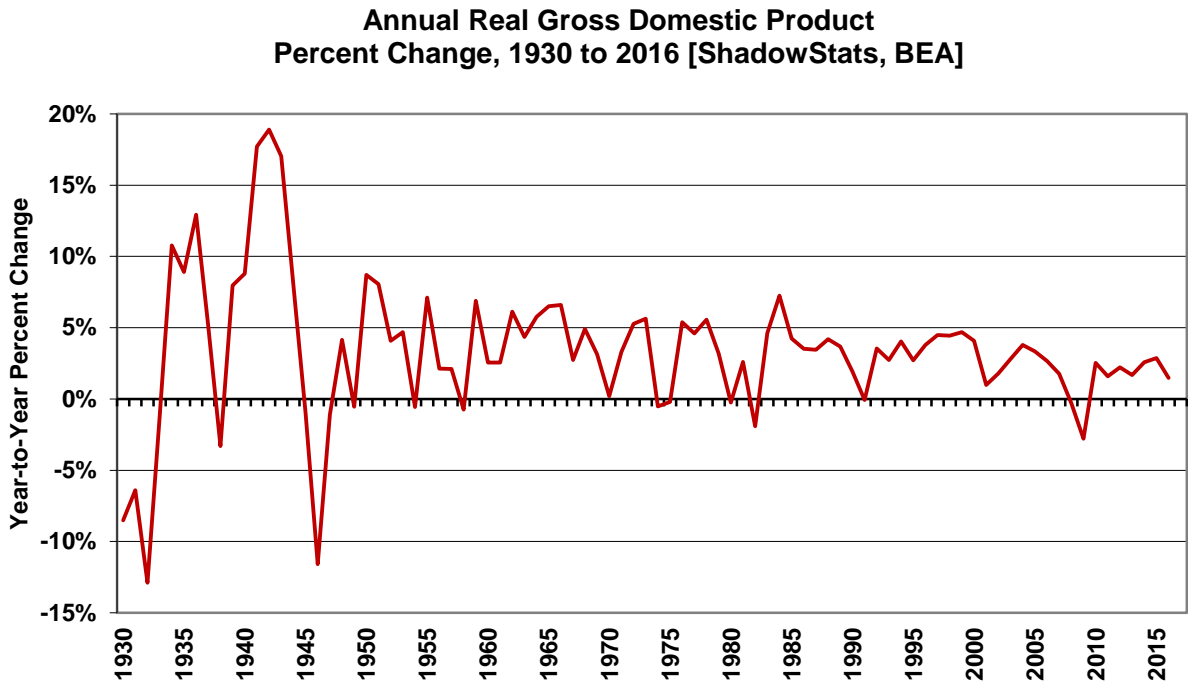
Graph 13: Year-to-Year GDP Real Change (1948-2017), First-Estimate of Third-Quarter 2017

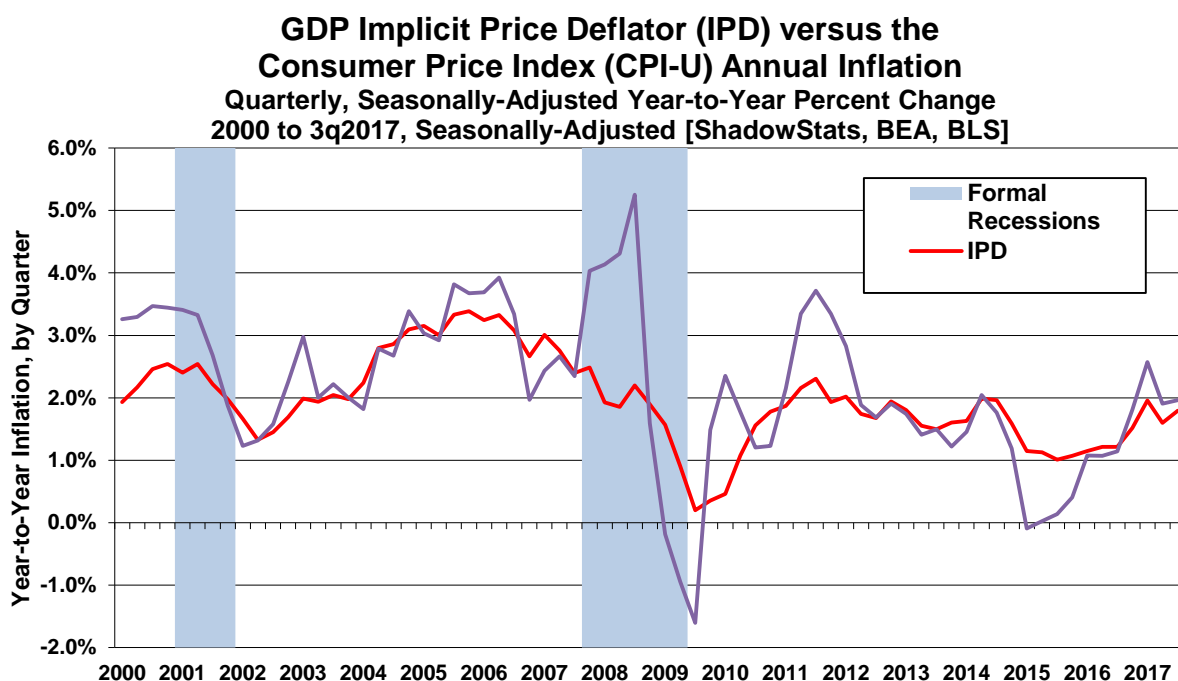


Graph 14: Annual GDP in Billions of 2009 Dollars (1929-2016)



Graph 15: GDP Real Annual Percent Change (1930-2016)



Graph 16: Year-to-Year Inflation, Quarterly IPD versus CPI-U, Seasonally-Adjusted (2000-2017)

Implicit Price Deflator (IPD). The first estimate of quarter-to-quarter third-quarter 2017 GDP inflation, or the implicit price deflator (IPD) was 2.15%, versus 1.01% in second-quarter 2017, 2.00% in first-quarter 2017, 2.03% in fourth-quarter 2016, 1.37% in third-quarter 2016, 2.43% in second-quarter 2016, 0.25% in first-quarter 2016, 0.82% in fourth-quarter 2015, 1.35% in third-quarter 2015, 2.18% in second-quarter 2015 and down by 0.06% (-0.06%) in first-quarter 2015. As general guidance, the weaker the inflation rate used in deflating an economic series, the stronger will be the resulting inflation-adjusted growth, and vice versa.

Year-to-year, the first estimate of third-quarter 2017 IPD inflation was a 1.79%, versus annual gains of 1.60% in second-quarter 2017, 1.96% in first-quarter 2017, 1.52% in fourth-quarter 2016, 1.22% in third-quarter 2016, 1.21% in second-quarter 2016, 1.15% in first-quarter 2016, 1.07% in fourth-quarter 2015, 1.01% in third-quarter 2015, 1.13% in second-quarter 2015 and 1.05% in first-quarter 2015. In terms of year-over-year, average annual inflation, the 2016 IPD inflation was 1.11%, versus 1.10% in 2015 and 1.09% in 2014.

For purposes of comparison, the seasonally-adjusted Consumer Price Index CPI-U grew at an annualized pace of 2.01%, having contracted by 0.31% (-0.31%) in second-quarter 2017, versus gains of 3.15% in first-quarter 2017, 3.04% in fourth-quarter 2016, 1.78% in third-quarter 2016, 2.33% in second-quarter 2016, 0.11% in first-quarter 2016, 0.35% in fourth-quarter 2015, 1.50% in the third-quarter 2015, 2.35% in second-quarter 2015 and a quarterly contraction of 2.52% (-2.52%) in first quarter of 2015.

Unadjusted, year-to-year quarterly CPI-U inflation showed annual gains of 1.96% in third-quarter 2017, versus 1.91% in second-quarter 2017, versus 2.54% in first-quarter 2017, 1.80% in fourth-quarter 2016, 1.12% in third-quarter 2016, 1.05% in second-quarter 2016, 1.08% in first-quarter 2016, 0.47% in fourth-

quarter 2015, 0.11% in third-quarter 2015, and quarterly contractions of 0.04% (-0.04%) in second-quarter 2015 and 0.06% (-0.06%) in first-quarter 2015 (see *Graph 16*). In terms of year-over-year, average annual inflation, the 2016 CPI-U inflation was 1.26%, versus 0.12% in 2015 and 1.62% in 2014.

Gross National Product (GNP) and Gross Domestic Income (GDI). Initial third-quarter estimates of GNP and GDI will not be released until next month, due to a lack of available, significant underlying detail, a problem common to the headline GDP detail, as well, which was released, as usual, despite its broadly meaningless reporting.

GNP remains the broadest measure of U.S. economic activity, where GDP is GNP net of trade flows in factor income (interest and dividend payments). As a reporting gimmick aimed at boosting the headline reporting of economic growth for net-debtor nations such as the United States, international reporting standards were shifted some decades back to reporting headline GDP instead of what had become a relatively weaker GNP.

GDI is the theoretical income-side equivalent to the consumption-side GDP estimate. The GDP and GDI are made to equal each other, every quarter, with the addition of a “statistical discrepancy” to the GDI-side of the equation.

ShadowStats Alternate GDP. The ShadowStats-Alternate GDP third-quarter 2017 GDP “advance” estimate was a year-to-year decline of 1.8% (-1.8%), versus an annual GDP headline gain of 2.3%, that was against a ShadowStats annual decline of 1.8% (-1.8%) in second-quarter 2017, versus an annual real headline GDP gain of 2.2%.

While the annualized, real quarterly growth rate is not estimated formally on an alternate basis, the statistically-insignificant, first-estimate of annualized, headline quarter-to-quarter gain of 3.0% in third-quarter 2017 likely was much weaker in reality, net of all the happy assumptions, regular reporting gimmicks and likely “unrecognized” data distortions from recent hurricane activity. Specifically, it faces a good chance of downside revisions in the next month or two, as those hurricane disruptions to the data begin to resolve themselves.

Actual quarterly contractions appear to have been a realistic possibility for inflation-adjusted GDP in most quarters since the official, second-quarter 2009 end to the 2007 recession.

Adjusted for understated inflation and other methodological changes—such as the inclusion of intellectual property, software and recent accounting for the largely not-measurable and questionable impact of the Affordable Care Act (ACA)—the business collapse that began in 2006/2007 is ongoing; there has been no meaningful economic rebound, as discussed in today’s *Opening Comments and Executive Summary*. The “corrected” real GDP *Graphs 2 and 4* in the *Executive Summary* (see also the *Economy* section in [No. 859 Special Commentary](#) and [2014 Hyperinflation Report—Great Economic Tumble](#)), are based on the removal of the impact of hedonic quality adjustments that have reduced the reporting of official annual GDP inflation by roughly two-percentage points. It is not the same measure as the ShadowStats-Alternate GDP, here, which reflects reversing additional methodological distortions (“Pollyanna Creep”) of recent decades, highlighted in the Alternate Data tab on the GDP on the www.ShadowStats.com home page.

[The Hyperinflation Watch begins on the next page.]

HYPERINFLATION WATCH

VELOCITY OF MONEY

Third-Quarter 2017 Velocity of Money Rose Minimally for M2, Declined Minimally for M3 and, More Sharply for M1. In the context of initial, relative strong headline detail for nominal Third-Quarter 2017 GDP and somewhat stronger nominal growth in Third-Quarter 2017 Money Supply measures, the velocity of money in the third-quarter largely was unchanged for the broader moneys measures M2 (up minimally) and M3 (down minimally), versus Second-Quarter 2017. The pace of money supply velocity for third-quarter M1, however, slowed by a small amount. Velocity is a measure of how many times the money supply turns over in a year, versus the broad economy (GDP).

Velocity is calculated simply as the ratio of the nominal GDP to the nominal money supply measure. Where nominal GDP is in the numerator and the nominal money measure is in the denominator of the velocity ratio, slowing velocity indicates a relatively slower pace of nominal economic growth versus the money supply growth, and vice versa.

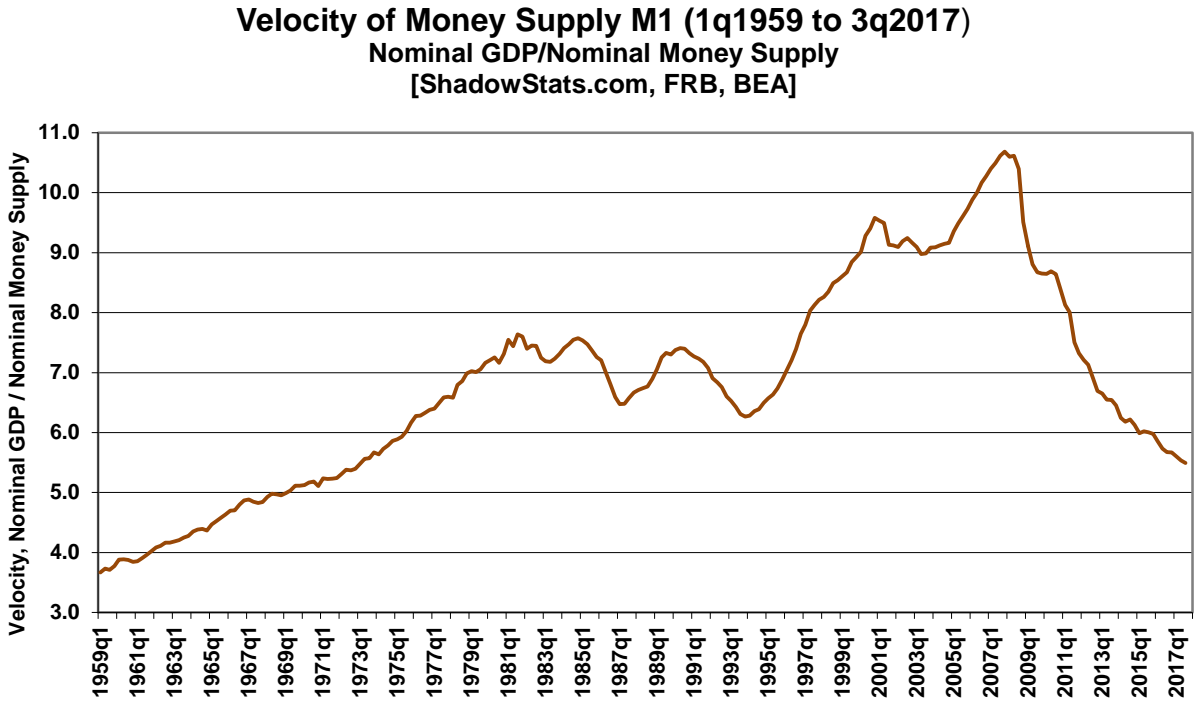
Velocity had plunged into first-quarter 2015 for M1 and M2. Since the end of 2010, however, the broader measure of M3 velocity had been steady through third-quarter 2014, when it also turned lower. With the exception of an uptick in second-quarter 2015, all velocity measures have been declining since late-2014, except for the just a brief, prior uptick in M3 velocity, and the small uptick just seen in M2 velocity.

Consider that perhaps 70% or more of the cash-in-circulation component of that M1 (with cash accounting for about 42% of M1) could be physically outside the United States, per the Federal Reserve. Where that has been an increasing trend, a true measure of domestic M1 velocity well could be showing a significant uptrend. In like manner, where M1 includes cash, M2 includes M1, and M3 includes M2, M2 and M3 velocities also would be higher (headline cash accounts for roughly 11% of M2 and 8% of M3).

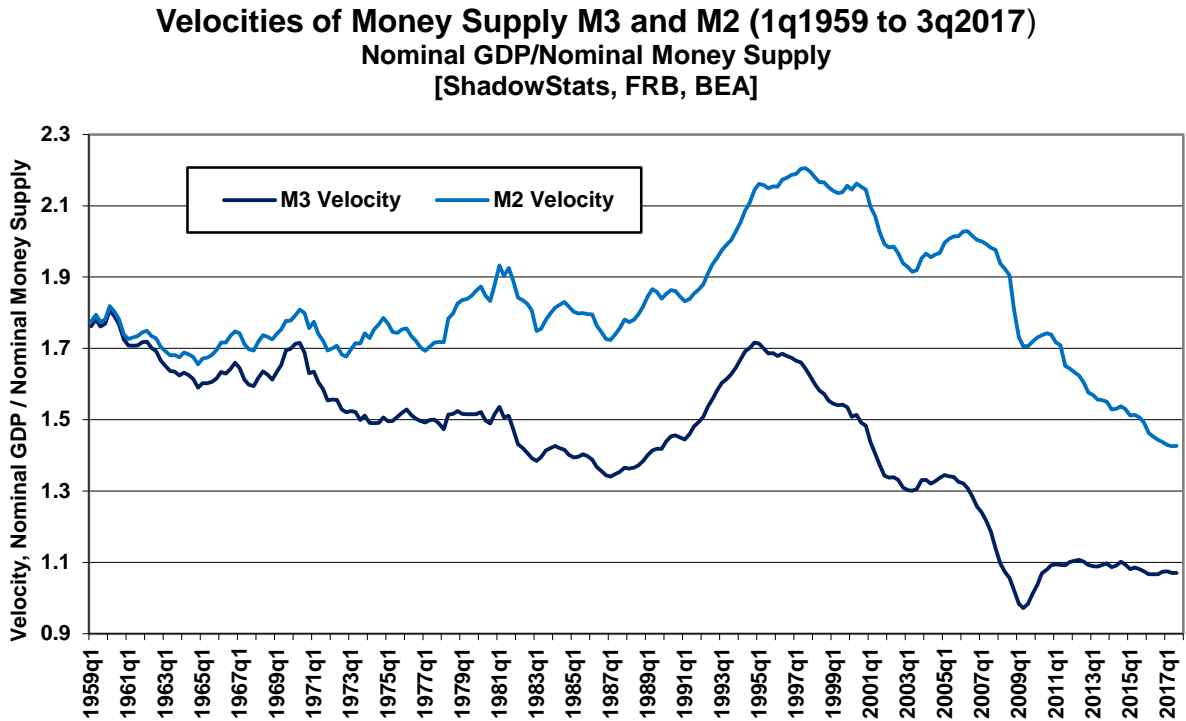
M3, versus M1 and M2, had been showing opposite patterns since 2011, because growth in M3 had been weaker than growth in M1 and M2, a pattern that had intensified. The reason behind that difference was that much of the relatively stronger M1 and M2 growth reflected, cash moving out of M3 categories—such as large time deposits and institutional money funds—into M2 or M1 accounts. The clarity of what happened there is why ShadowStats still tracks what had been the broadest money measure (M3) available. Now, M3 has started to rise anew, with M1 and M2 annual growth rates starting to reverse.

Subscribers often ask for specifics on the velocity of the money supply, with the result that this section has become a standard feature for *Commentaries* covering the “advance” GDP reporting of a given quarter. The nature of velocity is discussed in further detail in the 2008 [Money Supply Special Report](#). Again, velocity simply is the number of times the money supply turns over in the economy in a given year, or the ratio in nominal terms (not adjusted for inflation) of GDP to the money supply. It is a residual number, not otherwise open to calculation or independent surveying.

Graph HW-1: Velocity of Money Supply M1 through 3q2017



Graph HW-2: Velocities of Money Supply M2 and M3 through 3q2017



Velocity has theoretical significance. In combination with money-supply growth, it should be a driving force behind inflation. Yet, since velocity is a ratio of two not-particularly-well or realistically-measured numbers, its actual estimate is of limited value. As an inflation predictor, it has to be viewed in the context of accompanying money-supply growth, and vice versa, generally as a coincident indicator. Again, full definitions can be found in the [Money Supply Special Report](#).

MARKETS AND FOMC ACTIVITY

Pending Change at the Fed? As we go press, there are reports President Trump will announce his choice for a Federal Reserve Chairman, on Thursday, November 2nd, in the context of Federal Reserve Chair Janet Yellen's current term expiring on February 3, 2018.

Reflected in the accompany *Graphs HW-3 to HW-7*, as the headline September household survey employment details and the initial third-quarter GDP estimate showed what most likely was faux strength, the U.S. dollar has rallied and gold and silver prices have sold off some, near-term. Where the data should catch up anew on the downside, in the month ahead, the markets should adjust accordingly. With a Yellen Fed, such would favor the FOMC backing off tightening, moving back towards expanded quantitative easing. No action is expected out the Fed's Federal Open Market Committee (FOMC) meeting on Wednesday, November 1st.

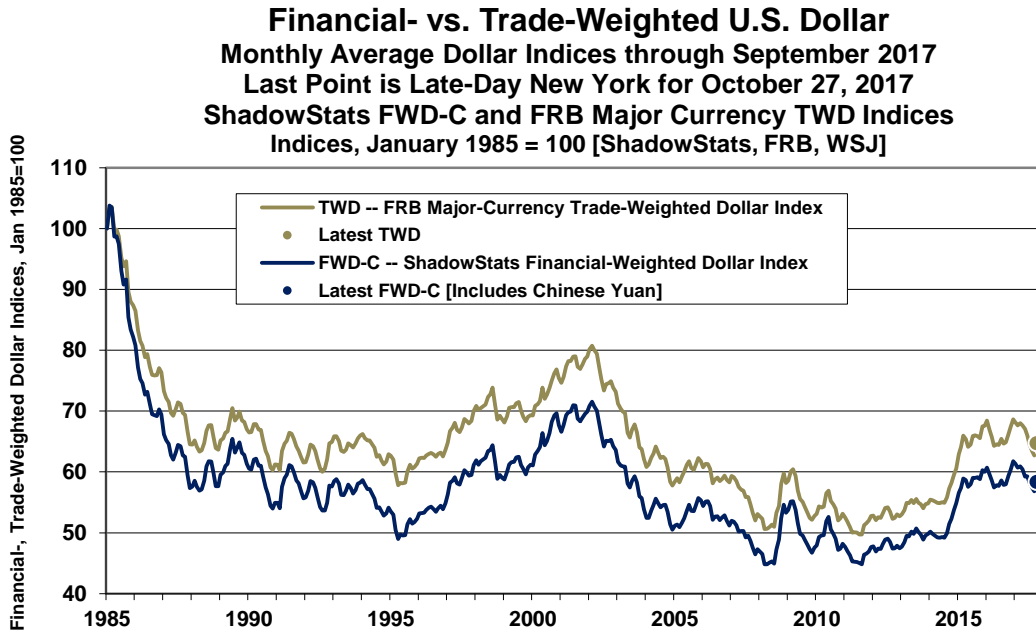
Circumstances will be reassessed, shortly after the Fed Chair nominee is announced. Nonetheless, banking system issues should continue to deteriorate. Such will remain a major problem that still will have to be addressed.

Longer-Range Inflation Outlook. Despite U.S. dollar strength of recent years, and what had been accelerating, now increasingly faltering dollar strength, subsequent to the post-election euphoria and the last rate hike, a tremendous threat to the dollar and systemic liquidity and stability continues, tied to the U.S. Federal Reserve's ongoing inability to resolve fundamentally the 2008 financial collapse, other than having bought limited time with its emergency, stopgap measures. Recent Fed tightening action has been despite continued, intensifying "adverse" economic circumstances. The U.S. central bank has been forced to prop banking-system liquidity against the ongoing gale of renewed, economically-driven, banking-system solvency and liquidity issues, with pressures intensified by recent systemic disruptions from natural disasters, increasing political discord in Washington and mounting global political instabilities. Despite strong speculation and protestations to the contrary, the FOMC likely still will end up reverting to renewed and expanded quantitative easing.

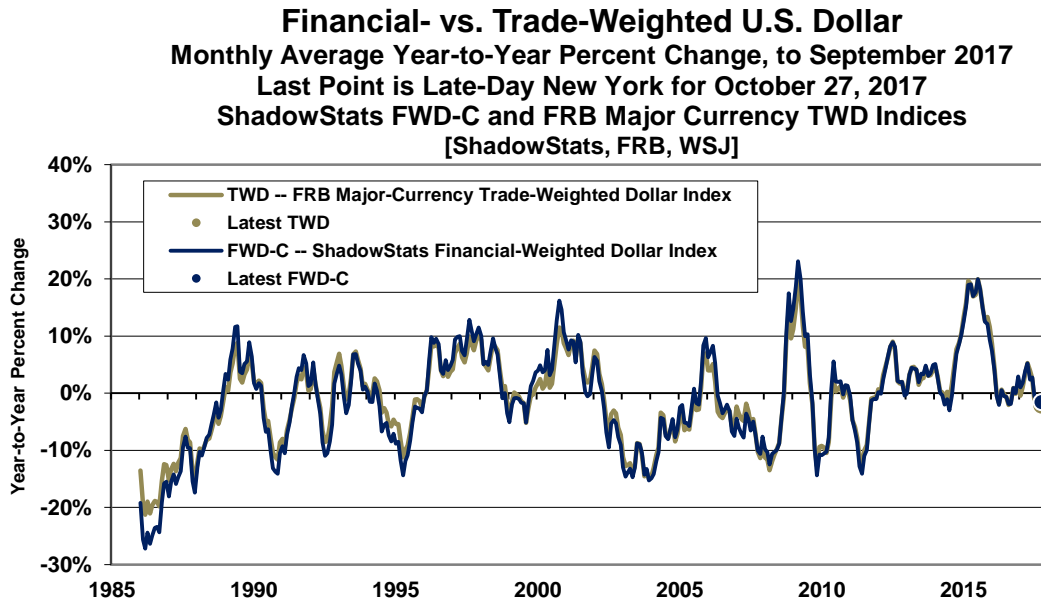
Since the 2008 crisis, domestic- and global-banking systems have not stabilized in a healthy or sustainable manner. Efforts to stimulate non-recovering U.S. economic activity, amidst renewed faltering activity, had been nil, up through the advent of, and nine months into the Trump Administration. Given standard lead times, any positive impact from an increasingly-unlikely, economic-stimulus package this year would not have significant effect until late-2018, at the earliest, most likely in 2019, a time lapse fraught with potential disaster created by a still-incapacitated Fed, fighting to the death a battle it already lost in the 2008 panic. Again, this circumstance will be reassessed in the context of potential changes at the Federal Reserve.

Compounding high-risk of a near-term, intensified run on the U.S. dollar remains mounting recognition in global markets that the U.S. Federal Reserve and other central banks still have no effective idea as to how to boost current economic activity, how to stabilize global banking-system solvency, or otherwise how to slog their way out of a self-generated quagmire. That circumstance only can be exacerbated by any intensification of systemic-political moves against President Trump by his opposition (see [Special Commentary No. 888](#)).

Graph HW-3: Financial- versus Trade-Weighted U.S. Dollar

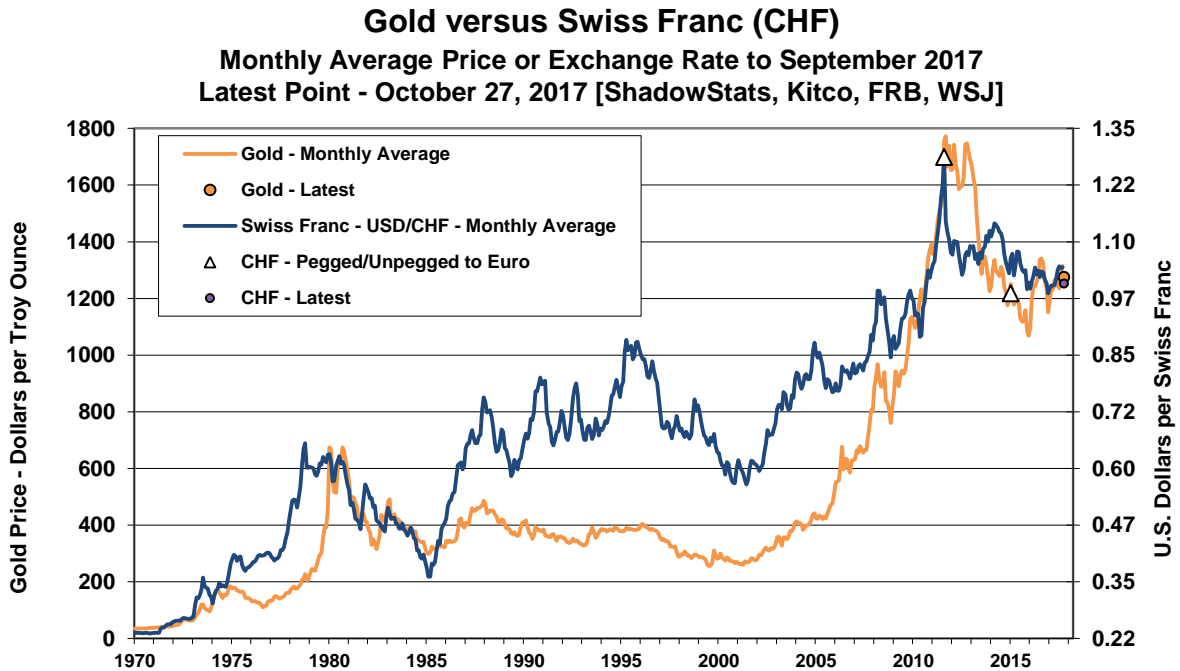


Graph HW-4: Year-to-Year Change, Financial- versus Trade-Weighted U.S. Dollar

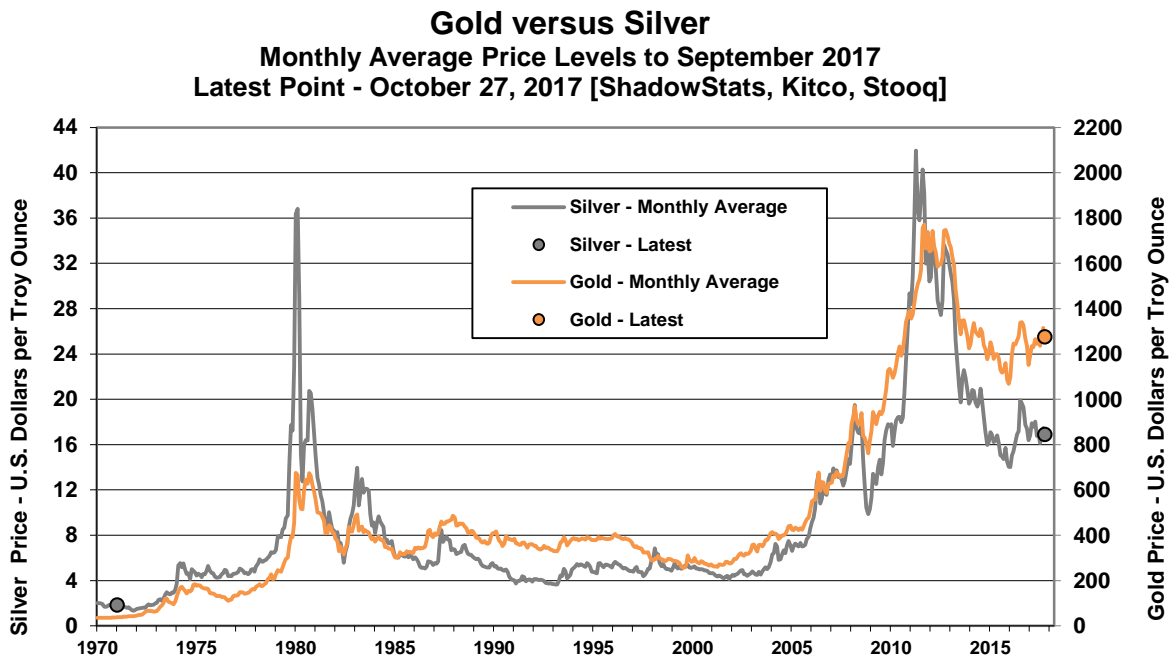


The outlook for renewed heavy dollar selling remains in place. Holding physical gold and silver remains the primary hedge for preserving the purchasing power one’s wealth and assets, in manner that is liquid and portable. Please call any time at (707) 763-5786 if you would like discuss unfolding market conditions or economic circumstances. Special “Alerts” will be posted as needed. – *John Williams*

Graph HW-5: Gold versus the Swiss Franc

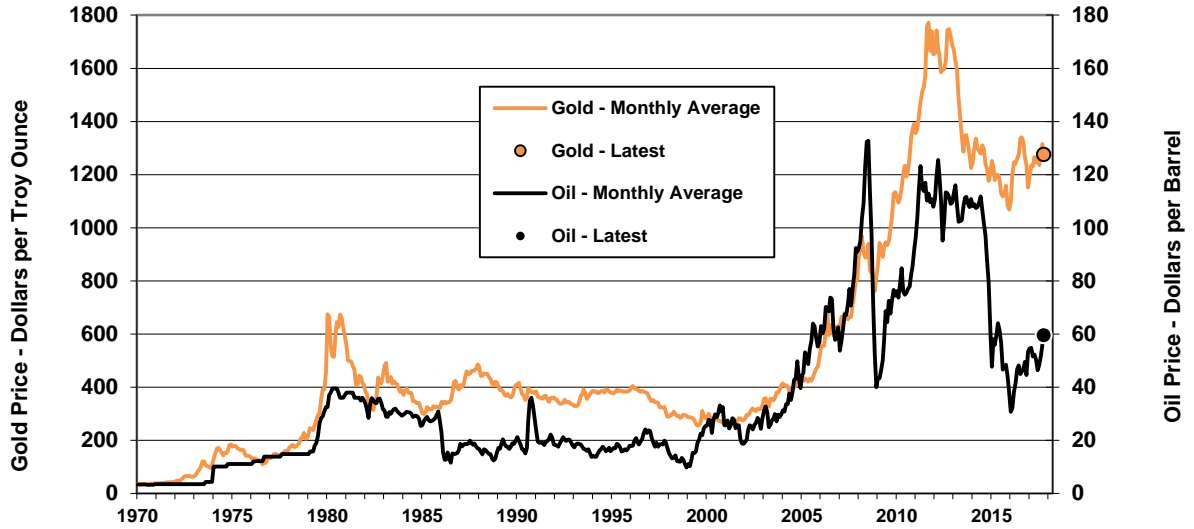


Graph HW-6: Gold versus Silver



Graph HW-7: Gold versus Oil

Gold versus Oil (Brent/WTI)
Monthly Average Prices to September 2017, Pre-1987 is WTI
Latest Point - October 27, 2017 [ShadowStats, Kitco, DOE]



[The Consumer Liquidity Watch begins on the next page.]

CONSUMER LIQUIDITY WATCH

CONSUMER LIQUIDITY CONDITIONS: INCOME, CREDIT AND RELATIVE OPTIMISM.

[Updates include October Consumer Sentiment, September Real Average Weekly Earnings and August Consumer Credit Outstanding.]

Liquidity Stresses Continue to Mount, Amidst Rising Optimism, Aggravated Temporarily by Natural Disasters. The U.S. consumer faces continuing financial stress, increasingly reflected in renewed softening of fundamental headline economic activity, including Payroll-Employment, Real Retail Sales of recent months (the headline September sales gains were spiked heavily by hurricane damages), home sales and related construction indicators, and ultimately as reflected in broader-based economic series such as Industrial Production. Where all of those measures face near-term, disaster-triggered reporting disruptions, liquidity stresses nonetheless have been intensified, at least temporarily, in hurricane-hit regions of the United States, where, for example, related September 2017 employment/unemployment details were heavily disrupted/distorted (see [Commentary No. 915](#)) of October 6th.

Liquidity Issues Limit Economic Activity. Severe and persistent constraints on consumer liquidity of the last decade or so drove economic activity into collapse through 2009, and those conditions have prevented meaningful or sustainable economic rebound, recovery or ongoing growth since. The limited level of, and growth in, sustainable real income, and the inability and/or unwillingness of the consumer to take on new debt have remained at the root of the liquidity crisis and ongoing economic woes.

These same pocket-book issues contributed to the anti-incumbent electoral pressures in the 2016 presidential race. The post-election environment showed a near-term surge in both the consumer confidence and sentiment measures to levels generally not seen since before the formal onset of the recession in 2002, let alone 2007. Yet, underlying liquidity conditions, economic reality and lack of positive actions out of the government to turn the economy meaningfully, all have continued to remain shy of consumer hopes. Not surprisingly, consumer optimism has begun to falter anew.

Including the various consumer income stresses discussed in [Special Commentary No. 888](#), broad, underlying consumer-liquidity fundamentals simply have not supported, and still do not support a turnaround in general economic activity—a post “Great Recession” expansion—and broadly are consistent with a “renewed” downturn in that non-recovered economic activity. Indeed, never truly recovering post-Panic of 2008, limited growth in household income and credit have eviscerated and continue to impair broad, domestic U.S. business activity, which is driven by the relative financial health and liquidity of consumers. These underlying liquidity conditions and reality—particularly income and credit—remain well shy of consumer hopes and needs.

The combined issues here have driven the housing-market collapse and ongoing, long-term stagnation in consumer-related real estate sales and construction activity, and have constrained both nominal and real

retail sales. Related, personal-consumption-expenditure and residential-construction categories accounted for 73.1% of the headline real (73.0% of nominal), second-quarter 2017 U.S. GDP.

With the better-quality economic indicators and underlying economic reality never having recovered fully from the collapse into 2009, consumers increasingly should pull back on consumption in the months ahead. Underlying reality is evident in more-meaningful economic indicators—not the GDP—irrespective of the transient, gimmicked boosts to, and current headline slowing in, that most worthless of economic series, discussed most recently in [Commentary No. 907](#).

Consumer Optimism: September Consumer Confidence and October Sentiment Measures Were Mixed.

This detail reflects the September 2017 reading of The Conference Board's Consumer-Confidence Index[®] (Confidence) of September 26th and full October 2017 reading the University of Michigan's Consumer Sentiment Index (Sentiment) of October 27th. Reflected in *Graphs CLW-1* and *CLW-2*, both Confidence and Sentiment rose a year ago in September 2016 and plunged in October, likely reflecting concerns as to the direction of the presidential race. Post-election, both measures rallied sharply, reflecting a surge in consumer optimism into early-2017. Both series then topped and pulled, with some mixed rebound into August, with the numbers having turned lower in September 2017, but with the October 2017 Sentiment measure showing an large jump, purportedly because consumers were willing to accept diminished prospects for their living standards (see [Commentary No. 916](#)). The Conference Board blamed hurricane impact in Texas and Florida for the downturn in September 2017 Confidence

The September Confidence and Sentiment levels remained off their respective post-election, euphoric peaks of March 2017 (Confidence) and January 2017 (Sentiment), but Sentiment surged to a high not seen since 2004, although three-month moving average of same matched its post-election euphoric high. The levels of both confidence and sentiment remain above their pre-recession peaks.

The Conference Board's seasonally-adjusted [unadjusted data are not available] Consumer-Confidence Index[®] (*Graph CLW-1*), and the University of Michigan's not-seasonally-adjusted Consumer-Sentiment Index (*Graph CLW-2*), again, both soared post-election, into early-2017, with Confidence booming into and topping in March and with sentiment booming into and topping in January 2017. The three-month moving averages in both series also had broken to pre-recession highs, with the Confidence hitting levels not seen since before the 2001 recession, yet the still-high moving averages also had begun to falter in September, still with the unusual October surge in Sentiment.

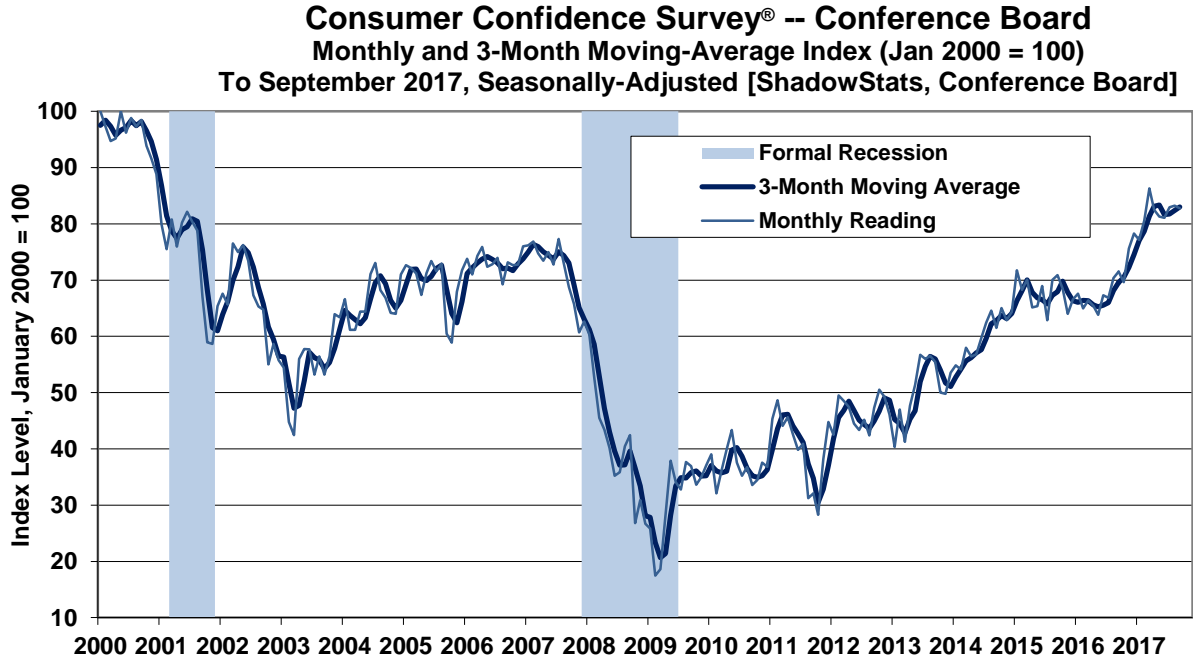
Showing the Consumer Confidence and Consumer Sentiment measures on something of a comparable basis, *Graphs CLW-1* to *CLW-3* reflect both measures re-indexed to January 2000 = 100 for the monthly reading. Standardly reported, the Conference Board's Consumer Confidence Index[®] is set with 1985 = 100, while the University of Michigan's Consumer Sentiment Index is set with January 1966 = 100.

The Confidence and Sentiment series tend to mimic the tone of headline economic reporting in the press (see discussion in [Commentary No. 764](#)), and often are highly volatile month-to-month, as a result. With what should continue as increasingly-negative, unstable and uncertain headline financial and economic reporting in the months ahead—beyond the early change-in-government euphoria—continued, successive negative hits to both the confidence and sentiment readings remain increasingly likely in the near future.

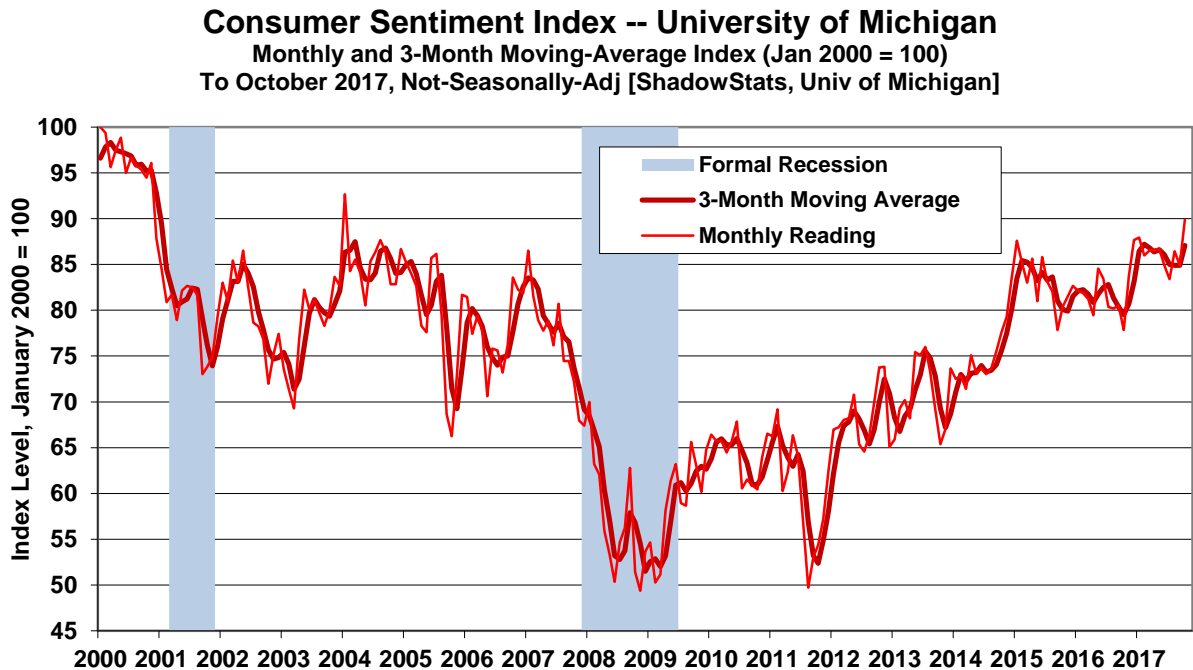
Broadly, though, the harder, financial consumer measures remain well below, or are inconsistent with, periods of historically-strong economic growth as suggested by headline GDP growth in 2014, for

second-and third-quarter 2015 and for third-quarter 2016 and into third-quarter 2017. Beyond having happy feelings about the future, consumers still need actual income, cash-in-hand or credit in order to increase their spending.

Graph CLW-1: Consumer Confidence (2000 to 2017)

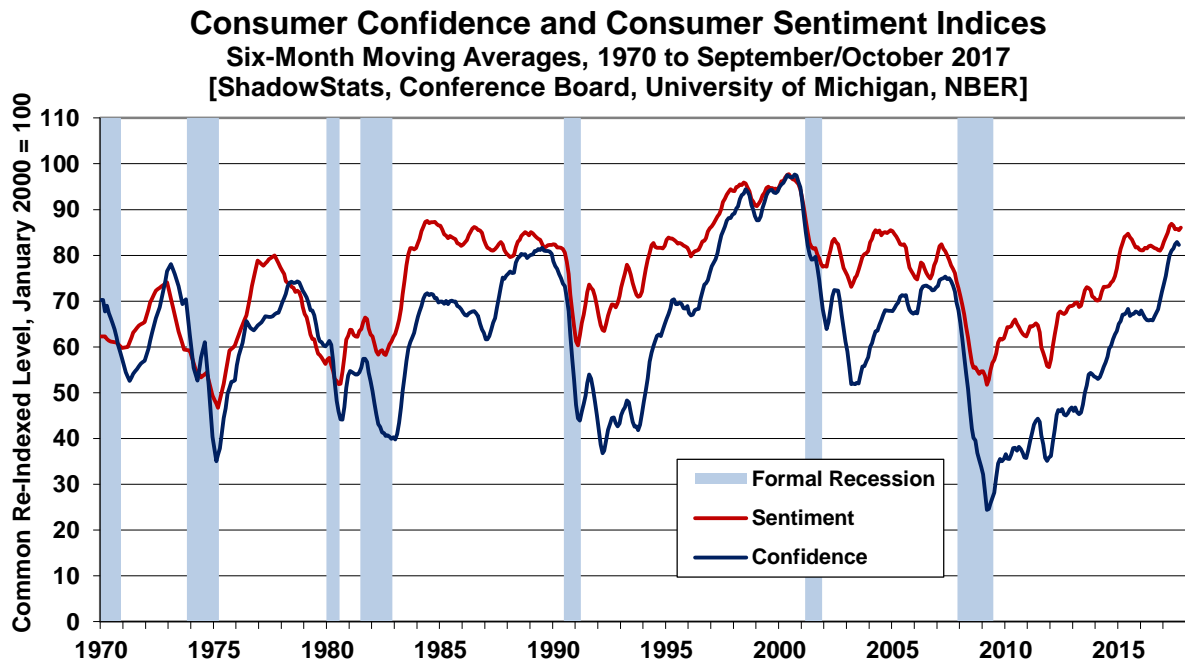


Graph CLW-2: Consumer Sentiment (2000 to 2017)



Smoothed for irregular, short-term volatility, the two series still generally had held at levels seen typically in recessions, until the post-2016 election circumstance. Suggested in *Graph CLW-3*—plotted for the last 47 years—the latest readings of Confidence and Sentiment recently have recovered levels seen in periods of normal, positive economic activity of the last four decades, with their six-month moving averages at levels last seen going into the 2001 recession, although they appear to be topping out.

Graph CLW-3: Comparative Confidence and Sentiment (6-Month Moving Averages, 1970 to 2017)

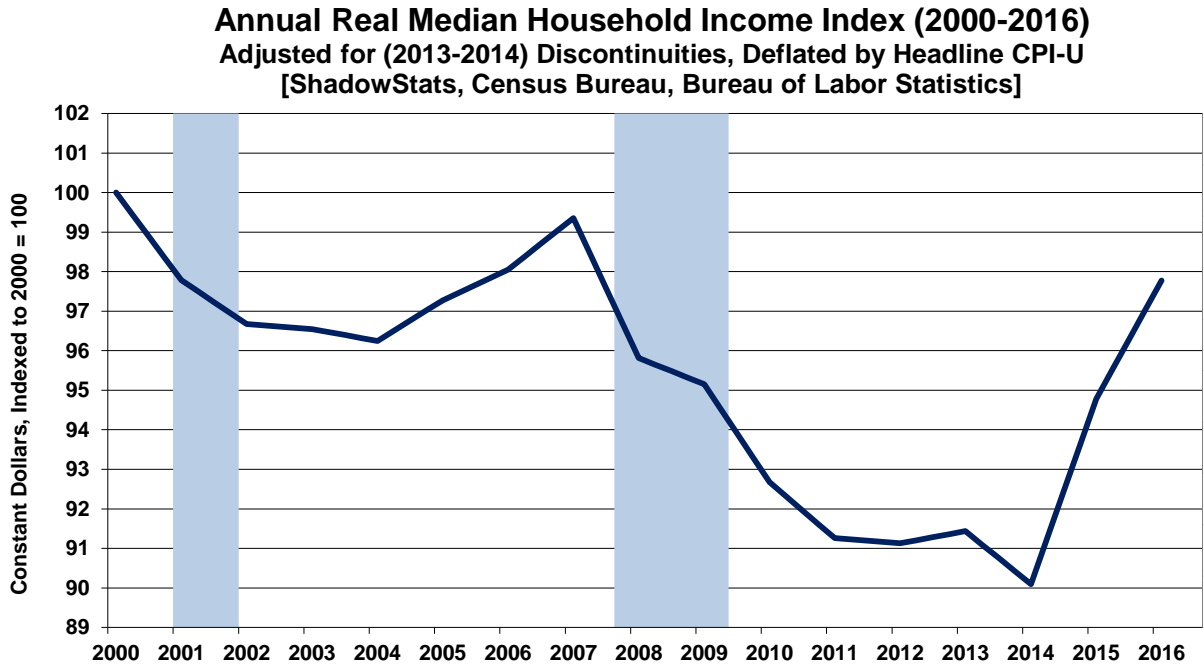


2016 Annual Real Median Household Income Still Was Below Its 2007 Pre-Recession High, Below Activity in the Late-1990s, About Even with the Mid-1970s. The measure of real monthly median household income, which has been provided by www.SentierResearch.com, generally can be considered as a monthly version of the annual detail shown in *Graph CLW-4*, based on the annual detail recently released by the Census Bureau and as discussed the *Opening Comments* of [Commentary No. 909](#). The 3.16% headline gain in 2016 real annual median household income for 2016 left the level of income not only below that seen at the purported pre-recession peak of 2007, but also below levels seen in the late-1990s, and minimally above activity seen in the mid-1970s (see *Graph OC-1* in [No. 909](#)). The Sentier details, as far as they go, from January 2000 to May 2017, suggested annual real median income was on track for further increase in 2017, having also indicated the 2015 and 2016 annual increases.

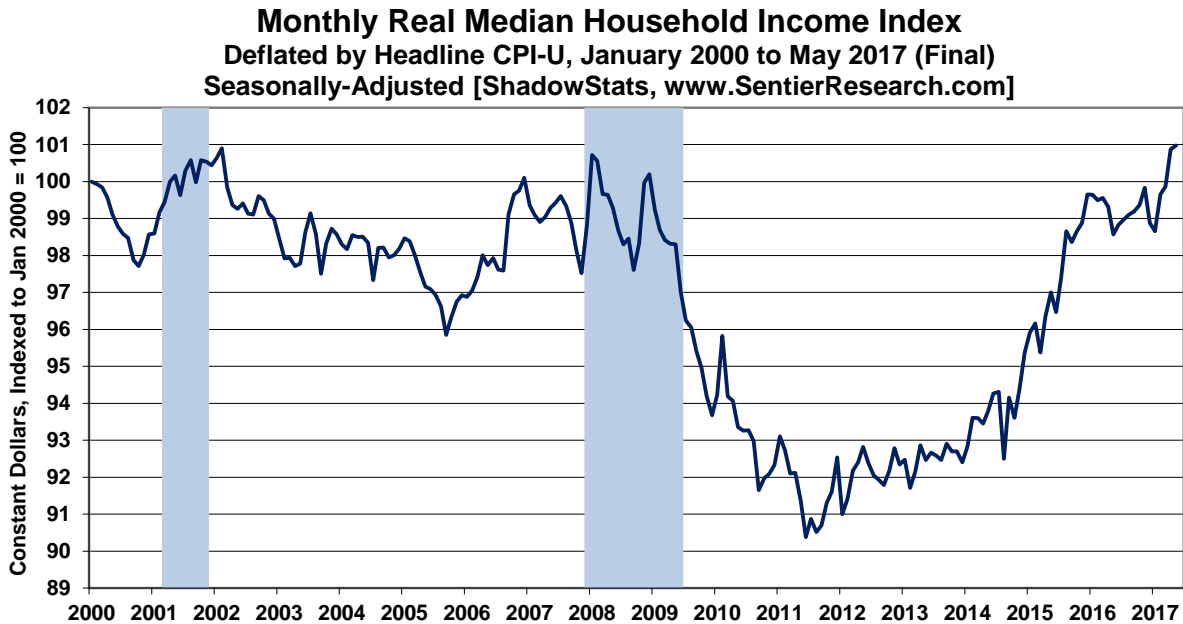
Last Monthly Estimate Showed Stagnating Monthly Real Growth. As last reported by Sentier Research, May 2017 Real Median Household Income was statistically unchanged, despite a boost from falling gasoline prices. Discussed in [General Commentary No. 894](#), and in the contexts of then-faltering gains in post-election consumer optimism, and inflation-adjusted activity boosted by declining headline Consumer Price Index (CPI-U) inflation (weakened by seasonally-adjusted gasoline price declines), May 2017 Real Median Monthly Household Income was “statistically unchanged” (a statistically-insignificant monthly gain of 0.10%). That followed a statistically-significant monthly gain of 1.00% in April 2017. Shown in *Graph CLW-4*, such enabled May 2017 real monthly median household income to hold a level regained in

April and otherwise last seen in February 2002. Year-to-year real median household income rose to 2.44% in May 2017, the highest level since June 2016, following an annual gain of 1.57% in April 2017 (see *Graph CLW-5*). The May detail, however, may have been the final reporting of the monthly series (see the *Special Note* that follows).

Graph CLW-4: Annual Real Median U.S. Household Income (1967 to 2016)

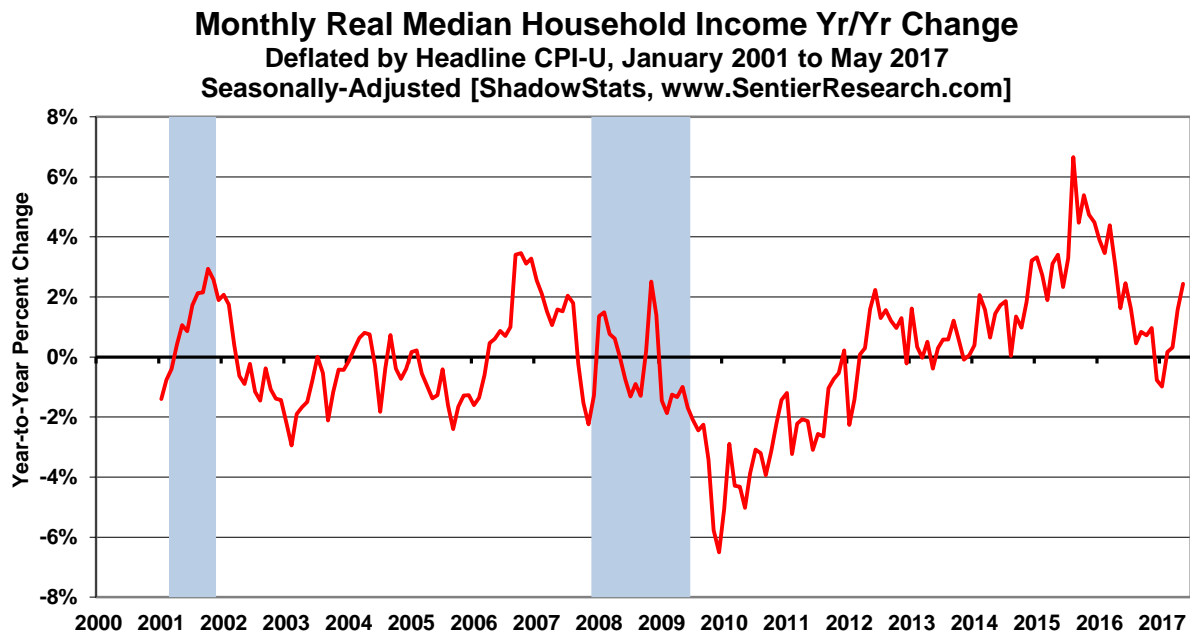


Graph CLW-5: Monthly Real Median Household Income (2000 to 2017) Index, January 2000 = 100



Where real monthly median income plunged into the headline trough of the economic collapse in 2009, it did not then rebound in tandem with the headline GDP activity. When the GDP purportedly started its solid economic recovery in mid-2009, the monthly household income numbers nonetheless plunged to new lows, hitting bottom in 2011. The income series then held in low-level stagnation, until collapsing gasoline prices and the resulting negative CPI-U inflation drove a post-2014 uptrend in the inflation-adjusted monthly income index. The index approached pre-recession levels in the December 2015 reporting, but it remained minimally below the pre-recession highs for both the formal 2007 and 2001 recessions until recent months. Real median household income had the potential to resume turning down anew, as the headline pace of monthly consumer inflation picked up anew, with the August 2017 CPI.

Graph CLW-6: Monthly Real Median Household Income (2000 to 2017) Year-to-Year Change



Nonetheless, the most-recent recent “rebound” reported in the series still left consumers financially strapped. Where lower gasoline prices had provided some minimal liquidity relief to the consumer, indications are that any effective extra cash largely was used to help pay down unsustainable debt or other obligations, not to fuel new consumption. Except for mixed gyrations in first-half 2017, the effects of changing gasoline prices in the headline CPI-U generally had reversed, pushing headline consumer inflation higher and beginning to push real income lower.

Differences in the Monthly versus Annual Median Household Income. The general pattern of relative monthly historical weakness has been seen in the headline reporting of the annual Census Bureau numbers, again, shown in *Graph CLW-4*, with 2014 real annual median household income having hit a ten-year low, and, again, with the historically-consistent 2015 and 2016 annual number still holding below the 2007 pre-recession high. The Sentier numbers had suggested a small increase in 2014 versus 2013 levels, low-inflation induced real increases in 2015 and 2016. Allowing for the direction difference in 2014, and continual redefinitions and gimmicks in the annual series (again, see the *Opening Comments* of [Commentary No. 909](#)) the monthly and annual series had remained broadly consistent, although based on separate questions within the Consumer Population Series (CPS), as conducted by the Census Bureau.

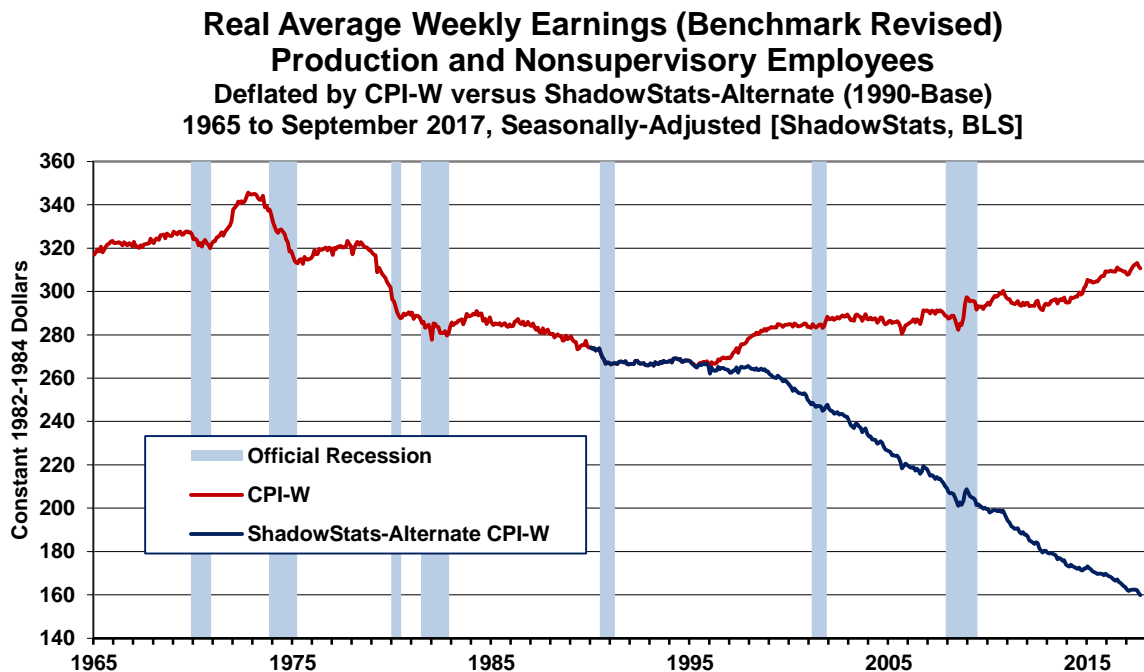
Where Sentier used monthly questions surveying current annual household income, the headline annual Census Bureau detail is generated by a once-per-year question in the March CPS survey, as to the prior year’s annual household income. The Median Household Income surveying results are broadly consistent with Real Average Weekly Earnings.

Special Note: Accompanying the release of the May 2017 data by Sentier Research was this [Notice of Final Report](#):

Dear Friends, This will be our final report in the monthly series of median household income. We can no longer afford to provide these estimates given our current level of resources. We believe, as we hope you do, that these estimates provided an important new dimension regarding the economic situation of American households as we slowly climbed out of the Great Recession. The story continues but we must move on. Our hope is that someone will be able to continue this work. Should you or someone you know be interested please contact us. Thanks to all of you for your kind support.. John and Gordon

ShadowStats hopes a circumstance will unfold that enables continued reporting of this extraordinarily valuable and timely indicator of consumer liquidity. Gordon Green and John Coder, the authors of the monthly report, both are former senior officials at the U.S. Census Bureau and have a unique understanding of the underlying monthly data. The Census Bureau publishes a broadly-similar series on an annual basis, but with an extraordinary time lag. The 2016 Census annual detail is due for release and publication in September 2017. Again, see [Commentary No. 833](#) for the 2015 detail published in 2016.

Graph CLW-7: Real Average Weekly Earnings, Production and Nonsupervisory Employees, 1965-to-Date



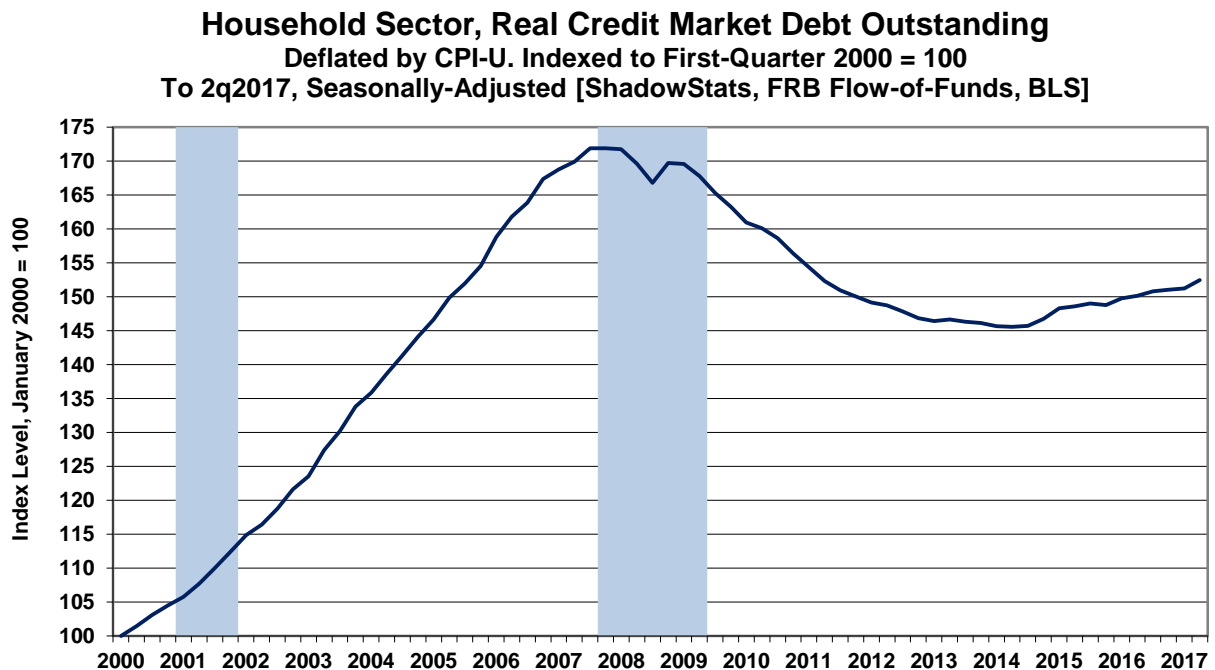
Real Average Weekly Earnings—September 2007—Month-to-Month Real Earnings Declined Again with Third-Quarter Showing Flat/Minimal Contraction . For the production and nonsupervisory employees category—the only series for which there is a meaningful history (see the full discussion on

page 23 in [Commentary No. 916](#)), the regularly-volatile real average weekly earnings fell month-to-month in September with a small quarterly contraction in third-quarter 2017 activity.

Graph CLW-7 plots the seasonally-adjusted earnings as officially deflated by the BLS (red-line), and as adjusted for the ShadowStats-Alternate CPI Measure, 1990-Base (blue-line). When inflation-depressing methodologies of the 1990s began to kick-in, the artificially-weakened CPI-W (also used in calculating Social Security cost-of-living adjustments) helped to prop up the reported real earnings. Official real earnings today still have not recovered their inflation-adjusted levels of the early-1970s (see today's *Opening Comments*), and, at best, have been in a minimal uptrend for the last two decades (albeit spiked recently by negative headline inflation). Deflated by the ShadowStats (1990-Based) measure, real earnings have been in fairly-regular decline for the last four decades, which is much closer to common experience than the pattern suggested by the CPI-W. See the [Public Commentary on Inflation Measurement](#) for further detail.

Consumer Credit: Lack of Meaningful Real Consumer Credit Growth Remains an Economic Constraint. The final four graphs on consumer conditions address consumer borrowing. Where debt expansion can help make up for a shortfall in income growth, adequate expansion of consumer debt, which would help fuel growth in personal consumption, has been lacking.

Graph CLW-8: Household Sector, Real Credit Market Debt Outstanding (2000 through Second-Quarter 2017)



Consider *Graph CLW-8 of Household Sector, Real Credit Market Debt Outstanding*. The level of real household debt declined in the period following the Panic of 2008, reflecting loan defaults and reduced banking lending, and it has not recovered fully, based on the Federal Reserve's flow-of-funds accounting through second-quarter 2017, released on September 21st. Household Sector, Real Credit Market Debt Outstanding in second-quarter 2017 still was down by 11.3% (-11.3%) from its pre-recession peak of third-quarter 2007. That was against an initial first-quarter 2017 decline of 11.5% (-11.5%), recently revised to 11.3% (-11.3%). The visual uptick in the latest point in *Graph CLW-8* resulted from a lowered

estimate of first-quarter activity (consumer credit revised lower by more than the upside revision mortgages), with the headline second-quarter inflation-adjusted level of activity boosted by a relatively-rare, annualized quarterly contraction in the seasonally-adjusted second-quarter CPI-U.

The series includes mortgages, automobile and student loans, credit cards, secured and unsecured loans, etc., all deflated by the headline quarterly CPI-U. The level of real debt outstanding has remained stagnant for several years, reflecting, among other issues, lack of normal lending by the banking system into the regular flow of commerce. The slight upturn seen in the series through 2015 and into 2016 was due primarily to gasoline-price-driven, negative CPI inflation, which continued to impact the system through second-quarter 2016. Current activity also has reflected continued relative strength from student loans, as shown in the *Graphs CLW-9 to CLW-11*.

The ShadowStats analysis usually focuses on the particular current weakness in monthly levels of consumer credit, net of what has been rapidly expanding government-sponsored student loans. Where detail on that series is only available not-seasonally-adjusted, the following graphs are so plotted.

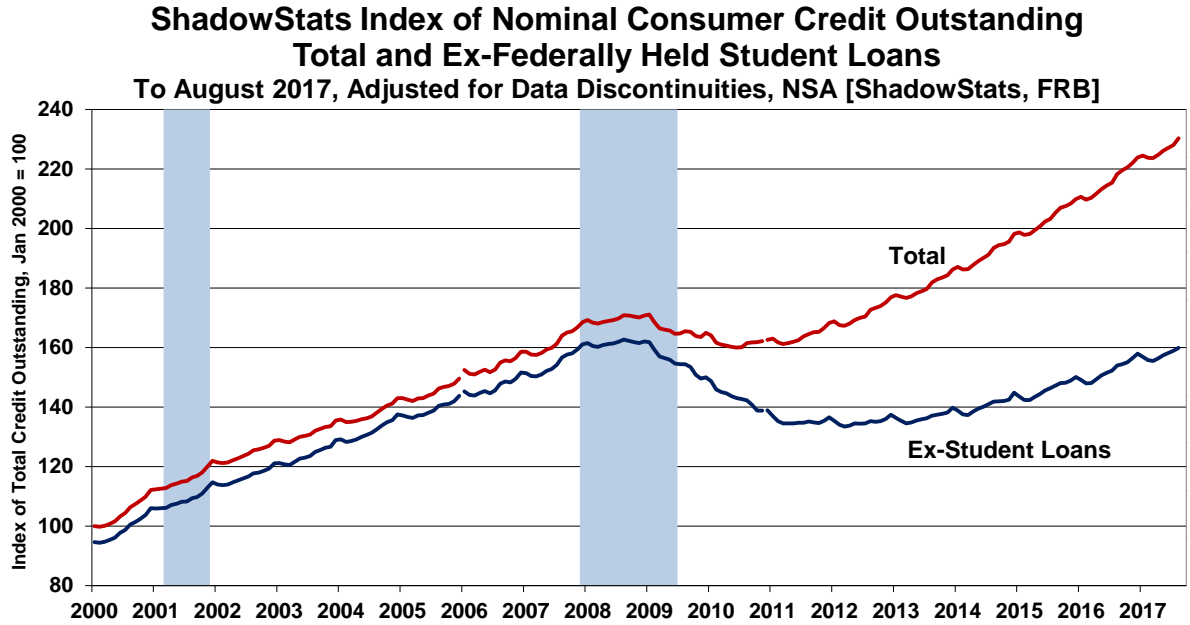
Shown through the August 2017 reporting, *Graph CLW-9* of monthly Consumer Credit Outstanding is a subcomponent of *Graph CLW-8* on real Household Sector debt. Where *Graph CLW-9* reflects the nominal reporting, not adjusted for inflation, inflation-adjusted real activity for monthly Consumer Credit Outstanding is shown in terms of both level (*Graph CLW-10*) and year-to-year change (*Graph CLW-11*).

Post-2008 Panic, growth in outstanding consumer credit has continued to be dominated by growth in federally-held student loans, not in bank loans to consumers that otherwise would fuel broad consumption or housing growth. Although in slow uptrend, the nominal level of Consumer Credit Outstanding (ex-student loans) has not recovered since the onset of the recession. These disaggregated data are available and plotted only on a not-seasonally-adjusted basis, with the pattern of monthly levels during one year reflecting some regular, unadjusted seasonal dips or jumps.

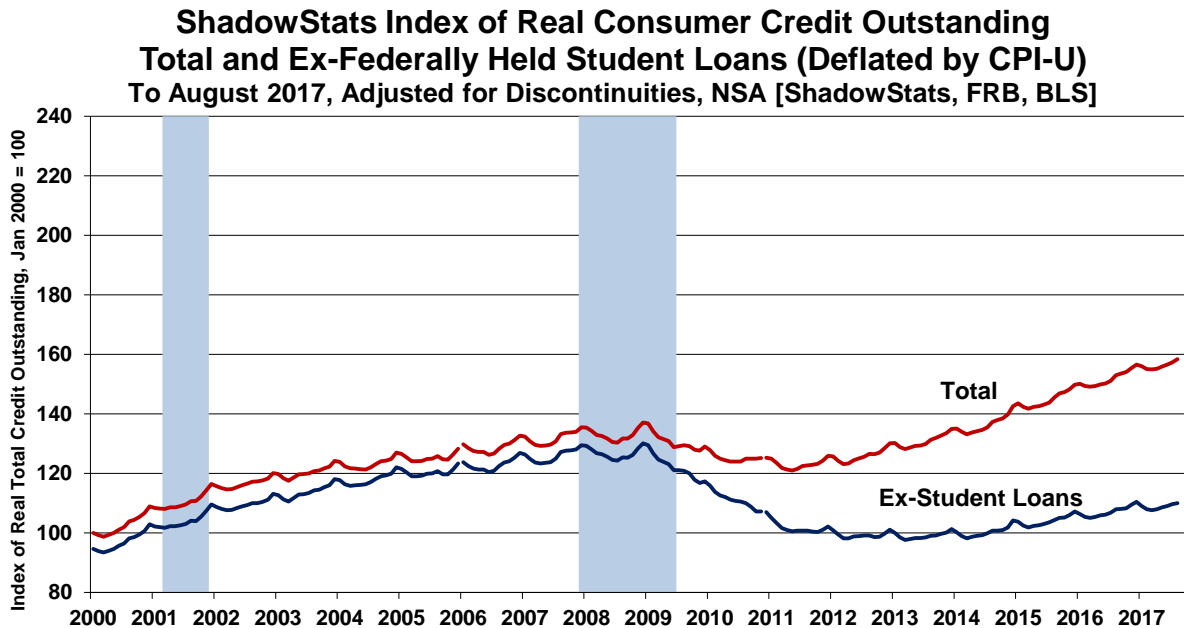
Adjusted for inflation, the lack of recovery in the ex-student loan area is more obvious. Although the recent monthly upside move in the not-seasonally-adjusted consumer credit reflected a seasonal pattern, the pace of year-to-year growth has continued to slow sharply, suggesting some tightening of credit conditions. Adjusted for discontinuities and inflation, ex-student loans, consumer credit outstanding in August 2017 was down from its December 2007 pre-recession peak by 15.1% (-15.1%) [that previously had been down by 12.3% (-12.3%) in June 2017, before a recent downside revision to the last five years of activity]. Year-to-year real growth shown in *Graph CLW-11* tends to resolve most of the monthly distortions in the not-seasonally-adjusted data.

[Graphs CLW-9 to CLW-11 begin on the next page.]

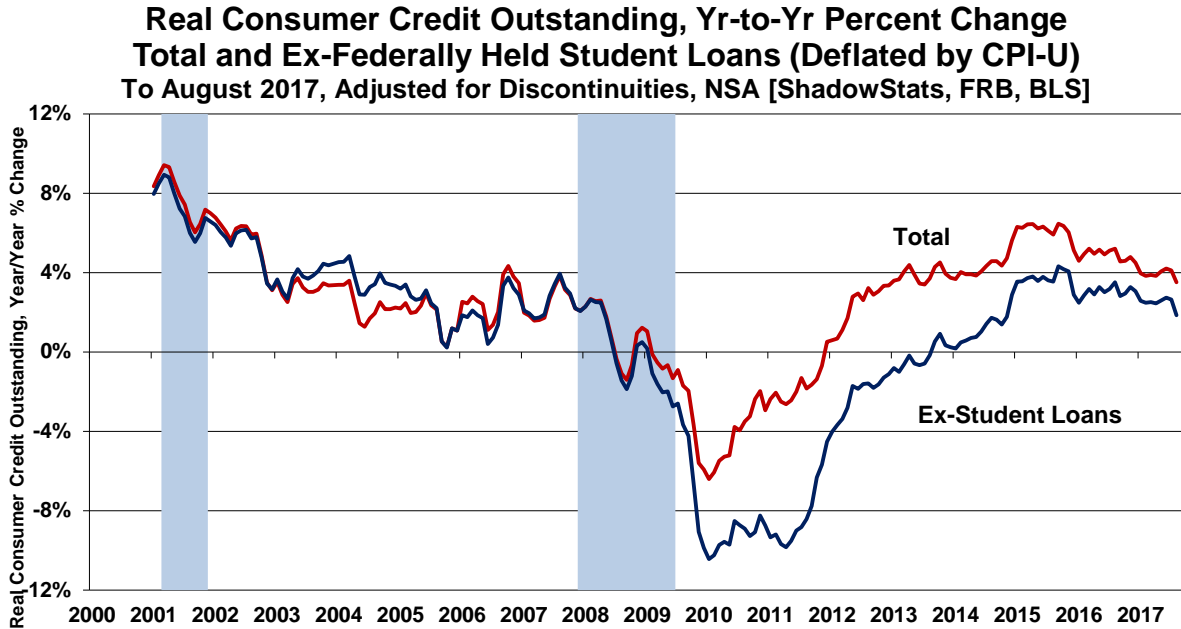
Graph CLW-9: Nominal Consumer Credit Outstanding (2000 to 2017)



Graph CLW-10: Real Consumer Credit Outstanding (2000 to 2017)



Graph CLW-11: Year-to-Year Percent Change, Real Consumer Credit Outstanding (2000 to 2017)



WEEK, MONTH AND YEAR AHEAD

Deteriorating Domestic and Global Political Circumstances Continue. Other than for Any Brief Respite from Short-Lived Hurricane Boosts, Economic Reporting Should Continue in Downtrend. In brief, irrespective of continued nonsense reporting of the GDP, and net of near-term hurricane disruptions to headline activity, both positive and negative, the economy is deteriorating anew, rapidly. The financial markets remain at extraordinarily-high risk of panicked declines. Holding physical gold and silver remain the ultimate hedges—stores of wealth—for preserving purchasing power of one’s assets, in the context of liquidity and portability.

Today’s *Hyperinflation Watch* speaks for itself, with a major review looming in the context of the nature of President Trump’s imminent nomination of the Fed Chairman, going forward from February 3, 2018. The nomination is expected by the end of the week. Other than for the *Pending Releases* paragraphs, language changes from the earlier version in *No. 914* are nil. Please call (707) 763-5786, if you would like to discuss current circumstances, or otherwise. *Best wishes – John Williams*

The *Hyperinflation Watch* of [Commentary No. 909](#) speaks for itself. Given the continuing and broadening weakness in the U.S. economy, despite varied impact in the next several months, from a disastrous hurricane season (see *Opening Comments*), given shifting political instabilities/circumstances in Washington and recent, sharp, near-term rate hikes and aggressive balance-sheet liquidation remain unlikely, in the near-term, despite mixed pronouncements to the contrary. Accordingly, selling pressure against the U.S. dollar still should re-intensify, shortly, pressuring inflation and the prices of precious metals on the upside. Increasingly, foreign capital should flee the U.S. equity and credit markets at an accelerating pace.

In the context of the *Opening Comments* and *Hyperinflation Watch* of the August 14th [Special Commentary No. 904](#) and the *Opening Comments* of [Commentary No. 905](#), underlying reality remains a weakening and vulnerable, seriously-impaired U.S. economy, as seen, for example with the latest employment and construction detail, and in likely weak data in the week ahead, all amidst continuing domestic and global political instabilities and unfolding natural disasters.

Unfolding circumstances still threaten the promised shift in FOMC policy, combined with the mounting political discord discussed in [Special Commentary No. 904](#) (see also the *Opening Comments* of [Commentary No. 901](#) and [Special Commentary No. 888](#)), odds continue to mount for intensifying financial-market turmoil in the near future, particularly as would be triggered by a market-related, intensifying heavy sell-off in the U.S. Dollar.

Broad economic activity never recovered fully from its crash into 2009, and it has started to turn down anew. As explored previously in the *Hyperinflation Watches* of [Commentary No. 899](#) and [General Commentary No. 894](#), and further to the *Opening Comments* and *Hyperinflation Watch* of [Commentary No. 892](#), headline economic reporting during June, July and early August of 2017, had shown a marked downturn versus consensus forecasts. While these circumstances usually signal an unfolding, major downshift in underlying economic reality, at present, they also forewarn of a potential shift in FOMC activity. Where such an event remains well removed from consensus expectations, at this time, in terms of Fed policy, that would mean a cessation of incremental rate hikes and a shift back towards expanded quantitative easing.

Immediate effects of such a policy change likely would include a massive sell-off in the U.S. dollar, which otherwise has been propped by recent FOMC rate hikes and continual jawboning for same. In parallel, heavy selling in the U.S. equity and credit markets would follow. As consensus economic forecasts have begun to soften, so too has the U.S. dollar exchange rate, while gold prices generally have firmed.

The circumstances here and the outlook still remain as broadly outlined in [No. 859 Special Commentary](#); currently shifting headlines only reflect the continued movement and evolution forward in time of the Fed's difficulties discussed in that missive.

The problem for the Federal Reserve remains that faltering domestic economic activity stresses banking-system solvency. Aside from formal obligations of the Fed to maintain healthy domestic economic and inflation conditions, the central bank's primary function (in practice) always has been to keep the banking system afloat. The near-absolute failure of that function in 2008 remains the primary ongoing and unresolved problem for the Fed, and it continues as one of the ongoing primary issues preventing the return of U.S. economic activity to normal functioning. Contrary to the recent purported headline comments of "not in our lifetime" by Federal Reserve Chair Janet Yellen, the continued unfolding of

“unexpected” economic deterioration suggests that the next major systemic financial crisis is likely to break in the next several months.

Generally, 2017 benchmark revisions to Construction Spending (see [Commentary No 897](#)), the Trade Deficit ([Commentary No. 890](#)), Industrial Production ([Commentary No. 877](#)), Manufacturers’ Shipments ([Special Commentary No. 888](#)), Housing Starts ([Commentary No. 887](#)) and Retail Sales ([Commentary No. 882](#)), and reporting subsequent to the benchmarks, confirmed that historical activity in recent years has been overstated and/or that it was turning down anew, particularly in 2015, with the availability of better-quality historical detail. Again, that is despite some recent near-term improvement in details, such as the headline unemployment rate, which increasingly suffers from dysfunctional definitional and sampling issues, and the latest headline GDP detail.

The reporting patterns of the better-quality, less-gimmicked series likely will continue to weaken with increasing intensity in the weeks and months ahead. Adding a negative uncertainty to unfolding financial-market risks remains potential political surprise, discussed in [Special Commentary No. 888](#). Otherwise, the broad outlook has not changed. Reflected in common experience, actual U.S. economic activity generally continues in stagnation or downturn, never having recovered its level of pre-economic-collapse (its pre-2007-recession peak), while the latest GDP reporting shows an otherwise unconfirmed economic expansion of 13.6%.

Discussed in [No. 859 Special Commentary](#), the Trump Administration continues to face extraordinarily difficult times, but still has a chance to turn the tide on factors savaging the U.S. economy and on highly negative prospects for long-range U.S. Treasury solvency and stability. Any forthcoming economic stimulus faces a nine-month to one-year lead-time, once in play, before it meaningfully affects the broad economy. Increasing and continuing delays from political discord continue to push targeted programs back in time. Needed at the same time are a credible plan for bringing the U.S. long-term budget deficit (sovereign solvency issues) under control and action to bring the Federal Reserve under control and/or to reorganize the banking system. These actions broadly are necessary to restore domestic-economic and financial-system tranquility (see [No. 859](#)), but they cannot happen without the meaningful participation and cooperation of Congress. The financial crisis at hand likely will intensify well before the 2018 Congressional Election will have any chance to stabilize the political outlook for economic policy.

[No. 859 Special Commentary](#) updated the post-election, near-term economic and inflation conditions, including general economic, inflation and systemic distortions, which had evolved out of the Panic of 2008, have continued in play and, again, need to be addressed by the Trump Administration and Congress (see also the *Hyperinflation Watch* of [Commentary No. 862](#) and [Commentary No. 869](#)).

Contrary to the official reporting of an economy that collapsed from 2007 into 2009 and then recovered strongly into ongoing expansion, underlying domestic reality remained and remains that the U.S. economy started to turn down somewhat before 2007, collapsed into 2009 but never recovered fully. While the economy bounced off its 2009 trough, it entered a period of low-level stagnation and then began to turn down anew in December 2014, a month that eventually should mark the beginning of a “new” formal recession (see [General Commentary No. 867](#)). Formal economic expansion does not begin until economic recovery breaks above its pre-recession high.

Coincident with and tied to the economic crash and the Panic of 2008, the U.S. banking system moved to the brink of collapse, a circumstance from which U.S. and global central-bank policies never have

recovered. Unwilling to admit its loss of systemic control, the Federal Reserve has made loud noises in the last year or so of needing to raise interest rates, in order to contain an “overheating” economy, but that “overheating” activity—never recognized by Main Street, U.S.A.—has been fading quickly. As this ongoing crisis evolves towards its unhappy end, the U.S. dollar ultimately should face unprecedented debasement with a resulting runaway domestic inflation.

Broad economic and systemic conditions are reviewed regularly, with the following *Commentaries* of particular note: [Commentary No. 902-B](#), [General Commentary No. 894](#), [Special Commentary No. 885](#), [Commentary No. 869](#), [No. 859 Special Commentary](#), [No. 777 Year-End Special Commentary](#) (December 2015), [No. 742 Special Commentary: A World Increasingly Out of Balance](#) (August 2015) and [No. 692 Special Commentary: 2015 - A World Out of Balance](#) (February 2015). Those publications updated hyperinflation and economic outlooks published in [2014 Hyperinflation Report—The End Game Begins – First Installment Revised](#) (April 2014) and [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#) (April 2014). The two *Hyperinflation* installments remain the primary background material for the hyperinflation circumstance. Other references on underlying economic reality are the [Public Commentary on Inflation Measurement](#) and the [Public Commentary on Unemployment Measurement](#).

Recent Commentaries. *[Listed here are Commentaries of the last month, plus recent Special Commentaries and others covering a variety of non-monthly issues, including annual benchmark revisions, dating back through the beginning of 2017. Please Note: Complete ShadowStats archives back to 2004 are found at www.ShadowStats.com (left-hand column of home page).]*

[Advance Commentary No. 918-A](#) (October 27th) [Advance Commentary No. 918-A](#) (October 27th) provided a brief summary of the headline detail of the first or “advance” estimate of third-quarter 2017 GDP.

[Commentary No. 917](#) (October 26th/27th) reviewed September Industrial Production, New Orders for Durable Goods, New Residential Construction (Housing Starts and Building Permits) and New- and Existing-Home Sales.

[Commentary No. 916](#) (October 20th) reviewed the September 2017 Retail Sales details along with the headline Consumer and Producer Price Indices for September.

[Commentary No. 915](#) (October 6th) reviewed the September 2017 Employment and Unemployment details, along with September 2017 monetary conditions.

[Commentary No. 914](#) (October 5th) reviewed the August 2017 Trade Deficit and Construction Spending, along with September 2017 detail on the The Conference Board Help Wanted OnLine[®] Advertising for August 2017, in the context of disruptions from hurricanes.

[Commentary No. 913](#) (September 28th) reviewed the third-estimate of second-quarter 2017 GDP, with a further consideration of some unusual economic reporting in the near future.

[Commentary No. 912](#) (September 27th) reviewed likely impact on economic reporting from the so-far, highly destructive hurricane season. Headline details of August New- and Existing-Home Sales and New Orders for Durable Goods were covered.

[Commentary No. 911](#) (September 19th) covered detail on August New Residential Construction, including monthly Building Permits and Housing starts, and the August Cass Freight Index[™].

[Commentary No. 910](#) (September 15th) reviewed the August 2017 releases of Industrial Production and nominal and real Retail Sales.

[Commentary No. 909](#) (September 14th) assessed the annual release of 2016 Real Median Household Income, along with a review of August Consumer Price Index (CPI) and the Producer Price Index (PPI) and an update *Alert* on the financial markets

[Commentary No. 908-B](#) (September 6th) provided extended detail of the August 2017 Labor and Monetary conditions and July 2017 Construction Spending, along with coverage of the July 2017 Trade Deficit and the initial estimate of the 2017 Payroll Employment benchmarking.

[Advance Commentary No. 908-A](#) (September 1st) provided summary coverage of the headline reporting on August 2017 Labor and Monetary conditions and July 2017 Construction Spending.

[Special Commentary No. 904](#) (August 14th) issued an “Alert” on the financial markets (including U.S. equities, the U.S. dollar gold and silver, as well as FOMC policy), in the context of historical activity and unfolding circumstances of deteriorating economic and political conditions. Separately, headline details were reviewed for the July Consumer Price Index (CPI) and the Producer Price Index (PPI).

[Commentary No. 903](#) (August 7, 2017) discussed new signals of economic deterioration in terms of political and FOMC considerations, along with headline coverage of the July labor data, M3 and The Conference Board Help Wanted OnLine[®], and June trade deficit and construction spending.

[Commentary No. 902-B](#) (July 31, 2017) reviewed the 2017 annual benchmark revisions of GDP and related series, along with the “advance” estimate of second-quarter 2017 GDP.

[Commentary No. 900](#) (July 19, 2017) reviewed June 2017 New Residential Investment (Housing Starts and Building Permits), and previewed the upcoming annual GDP benchmark revisions and the coincident “advance” estimate of second-quarter 2017 GDP.

[Commentary No. 897](#) (July 6, 2017) reviewed the headline May 2017 Construction Spending and the annual revisions to same, along the May Trade Deficit, and June The Conference Board Help Wanted OnLine[®] Advertising and the May Cass Freight Index[™].

[General Commentary No. 894](#) (June 23, 2017) reviewed unfolding economic, financial and political circumstances in the context of market expectations shifting towards an “unexpected” headline downturn in broad economic activity, along with headline details on May 2017 Real Median Household Income (Sentier Research) and New- and Existing-Home Sales.

[Commentary No. 890](#) (June 5, 2017) covered the negative-downside annual benchmark revisions to the trade deficit, the May 2017 estimates of labor conditions, ShadowStats Ongoing Money Supply M3, The Conference Board Help Wanted OnLine[®] Advertising and April 2017 estimates of the Cass Freight Index[™], and the monthly trade deficit and construction spending.

[Special Commentary No. 888](#) (May 22, 2017) discussed evolving political circumstances that could impact the markets and the economy, reviewed the annual benchmark revisions to Manufacturers’ Shipments and New Orders for Durable Goods and updated Consumer Liquidity Conditions.

[Commentary No. 887](#) (May 18, 2017) reported on the April 2017 detail for Industrial Production and Residential Construction (Housing Starts), with some particular attention to historic, protracted periods of economic non-expansion, of which the current non-recovery is the most severe.

[Special Commentary No. 885](#), entitled *Numbers Games that Statistical Bureaus, Central Banks and Politicians Play*, (May 8, 2017) reviewed the unusual nature of the headline reporting of the April 2017 employment and unemployment details.

[Commentary No. 882](#) (April 27, 2017) summarized the annual benchmark revisions to Retail Sales and reviewed the March 2017 releases of New Orders for Durable Goods and New- and Existing-Home Sales.

[Commentary No. 877](#) (April 2, 2017) outlined the nature of the downside annual benchmark revisions to industrial production, along with implications for pending annual revisions to Retail Sales, Durable Goods Orders and the GDP.

[Commentary No. 876](#) (March 30, 2017) current headline economic activity in the context of formal definitions of the business cycle (no other major series come close to the booming GDP, which is covered in its third revision to fourth-quarter activity. Also the February 2017 SentierResearch reading on real median household income was highlighted.

[Commentary No. 875](#) (March 24, 2017) assessed and clarified formal definitions of the U.S. business cycle, which were expanded upon significantly, subsequently, in *No. 876*. It also provided the standard review of the headline February 2017 New Orders for Durable Goods, New- and Existing-Home Sales and the Cass Freight Index™.

[General Commentary No. 867](#) (February 24, 2017) assessed mixed signals for a second bottoming of the economic collapse into 2009, which otherwise never recovered its level of pre-recession activity. Such was in the context of contracting and faltering industrial production that now rivals the economic collapse in the Great Depression as to duration. Also covered were the prior January 2017 New- and Existing Home Sales.

[Commentary No. 864](#) (February 8, 2017) analyzed January 2017 Employment and Unemployment detail, including benchmark and population revisions, and estimates of December Construction Spending, Household Income, along with the prior update to Consumer Liquidity.

[Commentary No. 861](#) (January 13, 2017) covered the December 2016 nominal Retail Sales, the PPI, with a brief look at some summary GAAP reporting on the U.S. government's fiscal 2016 operations.

[No. 859 Special Commentary](#) (January 8, 2017) reviewed and previewed economic, financial and systemic developments of the year passed and the post-election year ahead.

Note on Reporting-Quality Issues and Systemic-Reporting Biases. In the context of historical background provided in [Special Commentary No. 885: Numbers Games that Statistical Bureaus, Central Banks and Politicians Play](#), significant reporting-quality problems remain with most major economic series. Beyond the pre-announced gimmicked changes to reporting methodologies of the last several decades, which have tended both to understate inflation and to overstate economic activity meaningfully—as generally viewed in the common experience of Main Street, U.S.A.—ongoing, near-term headline reporting issues often reflect systemic distortions of monthly seasonal adjustments.

Data instabilities—induced partially by the still-evolving economic turmoil of the last eleven years—have been without precedent in the post-World War II era of modern-economic reporting. The severity and ongoing nature of the downturn provide particularly unstable headline economic results, with the use of concurrent seasonal adjustments (as seen with retail sales, durable goods orders, employment and unemployment data). While historical seasonal-factor adjustments are revised every month, based on the

latest, headline monthly data, the consistent, revamped historical data are not released or reported at the same time. That issue is discussed and explored in the labor-numbers related [Supplemental Commentary No. 784-A](#) and [Commentary No. 695](#).

Further, discussed in [Commentary No. 778](#), a heretofore unheard of spate of “processing errors” surfaced in 2016 surveys of earnings (Bureau of Labor Statistics) and construction spending (Census Bureau). This is suggestive of deteriorating internal oversight and control of the U.S. government’s headline economic reporting. That construction-spending issue now appears to have been structured as a gimmick to help boost the July 2016 GDP benchmark revisions, aimed at smoothing the headline reporting of the GDP business cycle, instead of detailing the business cycle and reflecting broad economic trends accurately, as discussed in [Commentary No. 823](#).

Combined with ongoing allegations in the last several years of Census Bureau falsification of data in its monthly Current Population Survey (the source for the BLS Household Survey), these issues have thrown into question the statistical-significance of the headline month-to-month reporting for many popular - economic series (see [Commentary No. 669](#)). Investigative-financial/business reporter John Crudele of the *New York Post* has written extensively on such reporting irregularities: [Crudele Investigation](#), [Crudele on Census Bureau Fraud](#) and [John Crudele on Retail Sales](#).

PENDING ECONOMIC RELEASES: Construction Spending (September). The Commerce Department releases its estimate of September 2017 construction spending on Wednesday, November 1st. Detail will be covered in *Commentary No. 919* of November 3rd. The August release continued to provide signals for an intensifying downturn in the construction industry. While such should remain as the longer-term trend, recovery and rebuilding efforts from hurricane damages in August and September could offer some near-term boost to activity. That said, the consensus outlook appears to be relatively neutral for the headline detail.

U.S. Trade Deficit (September 2017). The Commerce Department and Bureau of Economic Analysis (BEA) will release their full version of the monthly U.S. trade balance for September 2017, on Friday, November 3rd, to be covered in *ShadowStats Commentary No. 919* of that date. The October 26th release of the often-worthless “advance” estimate, suggested a slightly deeper deficit for September than had been expected, along with a more-negative deficit in the revised August goods detail. Consensus expectations for the full report are running accordingly. Reporting risks here continually run to the negative side of expectations.

Employment and Unemployment (October 2017). In the context of unwinding the disruptive impact from two major hurricanes that heavily distorted September headline data (see the *Opening Comments* and [Commentary No. 915](#)), and otherwise distorted by reporting issues discussed in [Special Commentary No. 885: Numbers Games that Statistical Bureaus, Central Banks and Politicians Play](#), the Bureau of Labor Statistics (BLS) will publish headline October 2017 labor data on Friday, November 3rd, which will be covered in *Commentary No. 919* of that date.

The small contraction seen in headline September payrolls—blamed on hurricanes—is expected to reverse, along with a strong gain in in the headline detail. Payroll numbers already were slowing markedly, however, before the impacts of Hurricanes Harvey and Irma. A “downside” surprise in headline payrolls continues as a fair bet, whether or not in the context of any prior-period revisions.

The headline strength in the September household-survey employment growth was heavily misread by the markets, clearly a number distorted to the upside by survey definitions of effects from Hurricane Irma (again, see [Commentary No. 915](#)). The monthly detail here does not get revised, so watch for a sharp monthly decline in October detail, offsetting something of related employment jump in the September household survey. The headline U.3 unemployment rate is expected to hold at the same 4.2% level as reported in September, a jump in the U.3 rate also is a good shot.
